Board of Directors Report

2019

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Message of the Chairman

Our journey over the past five years marks a major turning point for Zain KSA in its bid to realize its vision with respect to the digital future that would empower the Saudi society and nurture innovation.

As a core provider of telecommunication and digital services, Zain KSA is at the forefront of technological innovation and commits to fulfilling its scope for the realization of Saudi Vision 2030 in transforming the Kingdom into an international hub for information and communication technology. The company's leadership is focused on operational efficiency, strengthening our core business, expanding and enriching our digital portfolio, and diversifying into new growth areas.

As digital proliferates in the telecom industry, the further development of this dynamic business and transformation depends on strategic partnerships, agile innovation and customer strategies.

2019 was an extremely positive year, placing us firmly back on the regional and global telecoms map due to our compelling initiatives that drove penetration and coverage up across key services. Zain KSA has maintained its leadership position in innovation, as it continues to transition to a digital lifestyle provider, internally and externally. We proudly launched 5G services during the year and paired it with capital expenditure that gave our 5G network the widest geographical coverage within the Kingdom, with a total of 27 cities enabled by 2,600 towers.

We anchor our commitment to investors and shareholders, along with our corporate sustainability focus on the youth, who are the blooming future of our nation. Saudi talent accounts for 86% of our workforce and young Saudi professionals make up 92% of our executive leadership.
Today, we stand tall and ahead of the digital revolution, with the determination to progress on solid ground and work closely with our strategic partners to take advantage of future opportunities that will enable us to add greater value for our customers and shareholders through the interaction of technology and people.

Furthermore, we will continue to foster our productive relationship with the Ministry of Communications and Information Technology, and the Communications and Information Technology Commission, as well as with many other of the Kingdom's governmental authorities.

Zain KSA will continue to contribute to the Kingdom's progress and prosperity, towards a digital transformation, through the offer of cutting-edge services along with a solid commitment of embedding sustainability in every aspect of the organization.

Sincerely,

H.H. Prince Nayef bin Sultan bin Muhammad bin Saud Al Kabeer

Chairman of the Board of Directors

Message of the Chief Executive Officer

Our success story derives from our true corporate character of instilling sustainability at the core of our business in fulfilling our commitment to be a people-oriented organization and our goal of being an ICT leader in the Kingdom. This drives us to continue to overcome challenges, transform our operations and invest heavily to future-proof the business, as is witnessed by the SAR 1.9 billion we invested during 2019, predominantly in our ground-breaking 5G rollout, the largest 5G network in the Middle East, Europe, and Africa, and the fourth largest globally.
We have faced numerous challenges over the years, and thanks to the support of the board of directors and Zain group, who kept faith in the operation, lent financial, and provided strategic and operational support to Zain KSA, we have been able to overcome the challenges, reflected in the improving financial performance and market capitalization during 2019. Through our determination to implement our vision, we have led the company from having previously been in a precarious position to reporting a net profit of SAR 485 million in 2019, demonstrating the success of our digital growth strategy.

Zain KSA is now in a much stronger financial position than it has ever been in its history. We are becoming a pioneer in offering the latest ICT services for our customers, investing significantly in 5G infrastructure and services, and in fiber-to-the-home (FTTH) services to further boost broadband performance which we are confident will ignite a data revolution that will have a transformational impact on the Kingdom and the world at large.

We are mobilizing resources to capitalize on the enormous opportunity that 5G technology provides, creating vast opportunities in the value chain proposition in numerous industries, especially with regard to Enterprise (B2B) services to government and businesses of all sizes. We believe 5G will push the telecom sector to a new and exciting phase of growth.

Despite fierce competition and adverse global trends, our agility in finding successful strategies has allowed us to maintain our growth momentum. We remain at the forefront of digital innovation initiatives, having been involved in pioneering projects such as the roll out of Tamam, a fintech microfinancing platform, and the establishment of Yaqoot, a digital-only mobile operator. Moreover, through the launch of Zain Drone powered solutions, we aim to unlock opportunities for various industries to fast-track growth and exploit the Internet of Things (IoT) in an efficient, safe and agile environment.

Our successes to date are the result of the passionate efforts of every Zainer. We will continue supporting our people through our Diversity and Inclusion programs, empowering more women and developing employees, as we consider our most valuable investment is the establishment of confident, satisfied, and engaged individuals willing to pave a better future for our clients and fellow citizens.

As for Zain KSA's ongoing success on the operational front, and in line with Saudi Vision 2030, we remain determined to bring the latest innovations and pioneering digital services to the Kingdom, and to introduce new technologies, while building on 5G to enhance IoT, the development of smart cities, cloud services, and digital payment services in the near future.

Sincerely,

Eng. Sultan bin Abdulaziz Al-Deghaither

Chief Executive Officer

1. Overview

a. About Zain KSA

Zain KSA was established as a Saudi Joint Stock Company pursuant to Royal Decree No. 48/M dated 26th of Jumada I 1428H (corresponding to June 12, 2007), Ministerial Resolutions No. 176 dated 25th of Jumada I 1428H (corresponding to June 11, 2007), No. 357 dated 28th of Dhu Al Hijjah 1428H (corresponding to January 7, 2008), and Commercial Registration No. 1010246192 issued in Riyadh, on the 4th of Rabi Al-Awwal 1429H (corresponding to March 12, 2008).

These licenses have allowed the entity to operate as the Kingdom's third public mobile cellular operator having received the first technology neutral license in the Kingdom for a period of 25 years. This license period was extended for an additional 15 years, through the High Order issued in October 2016 that also granted the Company a unified license to provide all telecommunication services.

Zain KSA adopts a seven-pillared strategy with the aim to transform into an information communication technology leader in Saudi Arabia to the benefit of our customers in a hyper-connected evolving society. Given its prime focus on sustainability in every aspect of its business combined with modern networks and infrastructure, Zain KSA has been successful in establishing itself as a reliable telecom operator and a digital services provider whose telecommunication offerings include but not limited to digital payment services, cloud computing and the Internet of Things.

In line with its pioneering strategy, Zain KSA was the first operator in the Middle East to launch 4G/LTE commercially in September 2011. Additionally, in October 2019 the operator advanced its network by rolling out its first phase of state-of-the-art 5G technology to reach 27 cities across the Kingdom, enabled by 2,600 towers. The launch was the third largest 5G deployment globally at the time, remaining the largest in the Middle East, Europe and Africa to date. Having served more than 7.6 million customers and extended its network coverage to 99% of the population, the ever-evolving operator is attracting thousands of new voice and data customers daily.

The Company prides itself on employing high-caliber people with 92% of its executive leadership being Saudi professionals under the age of 40 years and 86% of its workforce consisting of energetic and inspired Saudi nationals. Empowered with this talent pool, the Company will continue to invest in telecommunication infrastructure and proactive operational initiatives, to offer the most innovative customer experience available for individuals as well as the private sector and government institutions, in line with the goals of Saudi Vision 2030 and the Kingdom's national digital transformation plan to provide services needed for a smart society and a better quality of life.

i. General Information

Legal name	Mobile Telecommunication Company Saudi Arabia
Legal form	Publicly Listed Company
Trading No. (Tadawul)	7030
Paid-up capital (SAR)	5,837,291,750
Number of shares	583,729,175
Industry & Sector	Telecommunication Services
Date of establishment	12/03/2008
Date of listing	22/03/2008
Address	Riyadh, Ash Shuhada, Granada Business Park, Building A3, with the postal address P.O. Box 295814 – Riyadh 11351 – KSA
Telephone	+966-59-244-8888
Fax	+966-11-461-2441
E-Mail	investor.relations@sa.zain.com
Website	www.sa.zain.com

ii. Subsidiaries

Zain Sales Co Ltd:

A limited liability company registered and operates in the Kingdom of Saudi Arabia and established in 2018 as a subsidiary with a capital of SAR 10,000, wholly owned by the Mobile Telecommunication Company Saudi Arabia. The company's activity is engaged in the fields of commercial distribution and partner management. Zain Sales subsidiary company has been established to be the Company's sales arm in the market; to function as an intermediate between Zain KSA and the Consumer Sales and Distribution Channels for more efficient channel management and overall sales efficiency. Nevertheless, it is expected to be the biggest channel in terms of revenue contribution to Zain KSA through wholesale revenue, i.e. the volume of Voice and Data Scratch Card/Vouchers. The company started its operation in the first quarter of 2019, and contributed up to 3% of the overall revenue of Zain KSA in 2019.

Zain Business Ltd:

A limited liability company registered and operates in the Kingdom of Saudi Arabia and established in 2018 as a subsidiary with a capital of SAR 10,000, wholly owned by the Mobile Telecommunication Company Saudi Arabia. The company's activity is engaged in the fields of telecommunication, information technology, and specialized sub-contracting. The company is not operational yet, therefore, it had no impact on Zain KSA's business and results.

Zain Payment Ltd (Tamam):

A limited liability company registered and operates in the Kingdom of Saudi Arabia and established in 2019 as a subsidiary with a capital of SAR 100,000, wholly owned by the Mobile Telecommunication Company Saudi Arabia. The company's goal is to increase financial inclusion in the Kingdom in line with the Financial Sector Development Plan, part of Saudi Vision 2030. The company started its operation in the fourth quarter of 2019, and had no impact on Zain KSA's business and results.

Zain Drones Ltd:

A limited liability company registered and operates in the Kingdom of Saudi Arabia established in 2019 as a subsidiary with a capital of SAR 10,000, wholly owned by the Mobile Telecommunication Company Saudi Arabia. The company offers a diversified fleet of world-class drones and applications that have the required capabilities to implement state-of-the art bespoke drone solutions and conduct advanced analytics for governments and enterprises as part of our "Drone as a Service" (DaaS) operations. Through Drone Powered Solutions, we unlock opportunities for various industries to fast-track growth and exploit the Internet of Things (IoT) in an efficient, safe and agile environment. The company started its operation in the fourth quarter of 2019, and had no impact on Zain KSA's business and results.

b. Zain KSA Strategy

The core of our strategy is to transform into a leading information and communications company in Saudi Arabia that allows our customers to benefit in a hyper-connected evolving society.
Our goals include growing profitably and leading the ongoing evolution of a digitally connected future - for individuals, businesses, machines and delivering value to all key stakeholders.

Our strategy is built on seven key pillars:

1. Strengthen the Core Business

Maximize value of own user base

The Saudi Arabian population is often cited as one of the highest in youthful density, which has led to an ever-growing demand for wireless digital connectivity services. The Saudi market continues to exhibit a huge growth in demand for data products and applications, not only fueled by a young and digitally-connected population, but also driven by the strong adoption of e-government services and popularity of video streaming and HD content on social media. Our investments in network expansion (spectrum acquisition) are aimed at positioning Zain Saudi as the mobile data operator-of-choice and the first brand choice for students from high school to university.

2. Improve Cash Management Discipline

Improve profitability and cash position

Our main objective is to implement and design a yearly cost optimization plan that aims to maintain internal controls, improve procurement efficiency through team upskills, process digitization, optimize capital structure and relationship with creditors, and ensure high ROI and smart investment through the Capex Value Based Management.

3. Deliver Growth from New Opportunities

Professionalize and scale-up B2B new revenue streams

As Vision 2030 is the driving force for diversification of the Saudi economy, digitization will be the key enabler across all industries. Superfast broadband access coupled with digital applications will continue to redefine the way we live and work in Saudi Arabia. Complementing our wireless portfolio, we plan to embark on delivering FTTH based broadband connectivity to consumers. Also through partnerships, we plan to deliver solutions to business clients based on superfast connectivity and integrated applications. Our aspiration and plan is to be a leading ICT Solution Provider in KSA in terms of innovation and agility.

4. Smart Network Evolution

Deliver seamless, end-to-end user experience across our network technologies and build the network architecture for 2020 and beyond

Relevance and leadership in the data market is dependent on continuing to leverage the latest 5G evolution technologies. We will continue to invest in advanced wireless technologies, fiber to the premises and hybrid fiber-wireless connectivity. In addition, we will ensure smart and efficient Capex investment, identify and execute Opex optimization programs and maximize Customer Experience.

5. Digitization

Automate systems and processes to deliver a consistent & improved experience and define lifestyle/ entertainment digital services

We plan to seriously enhance our digital capabilities to interface with the digital citizens of Saudi Arabia and serve more than 30% of customers electronically, and participate in governmental and economic digitization efforts and projects, thus contributing to the Saudi knowledge-based economy and Vision 2030.
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 the availability of offerings to consumers, internal and external processes, and customer interaction points, making consumers' dealings with us easier, simpler, and more enjoyable. Digitizing our customers' journey will bring us the benefits of operational excellence and expand our digital footprint in the market.

6. Human Capital Development

Develop & implement career management throughout effective & efficient practices

We plan to excel in the market by promoting a caring culture among our employees, as part of a fulfilling work environment, emphasizing the need to be an agile and efficient operator. We wish to attract and retain talented Saudis with an entrepreneurial attitude to ignite our growth and success. Performance, competitive spirit, challenger attitude, curiosity, women empowerment, innovation and success through teamwork will allow us to deliver better service to our customers, develop the right insights, and act quicker to translate initiatives into market success.

7. Venture Capital Investment

Taking Advantage of Growth in Technology

There is a significant new player emerging in the venture capital world whose participation is changing the way that the venture business is done. Our objective are to strengthen the brand equity by linking it to the raising national transformation and plotting the program as corporate entrepreneurial responsibility to solve the unemployment problem and help innovation drivers in the country, and to ensure diversity of investments and future revenue.

c. Significant Milestones

d. Achievements and Plans

Zain KSA considers itself a strategic telecommunications sector partner and a key contributor to the National Transformation Program. The company has translated this ambitious vision through actively participating in developing the sector, having implemented a number of projects relating to universal service funds and broadband wireless services in remote areas to serve over 800,000 people in 124,000 homes throughout 3,959 villages across 29 governorates in the Kingdom.

Zain KSA is installing Wi-Fi networks that will offer users two hours of high-speed internet access for free, and will contribute largely in improving customer experiences in locations such as hospitals, malls and parks. So far, the company has activated 8442 service points.

In regard to 5G connectivity, Zain KSA is considered a sector pioneer owing to its 5G network - the largest in the region - which showcases the company's dedication to offer the latest and best technologies to its customers. This accomplishment is the result of diligent efforts that kicked off in July 2018, when Zain KSA launched the pilot phase of its 5G rollout and the first service station of its network in Riyadh. The company continued to establish additional stations that led to the commercial inauguration of the network in October 2019 where more than 2600 network towers covering 27 cities were installed, achieving a coverage rate of 43% of the population, and accomplishing one of the targets set with the Ministry of Communications and Information Technology. The accomplishment is also the result of Zain KSA's acquisition of spectrum licenses with a total of 190 MHz spectrum to launch its 5G network, together with two of the most significant global frequencies for 5G networks (2600 MHz and 3500 MHz), which it had bought through auctions held by the Communications and Information Technology Commission in early 2019. Zain KSA utilizes the latest networks with the highest capacities and capabilities provided by providers around the world.

Zain KSA's support continues to extend further to include sectors such energy and electricity, as the operator has reiterated its commitment to provide reliable support networks during the Saudi Electricity Company's communications network tests, and licensing it to be utilized for connecting smart meters. Zain KSA assisted the utility to connect meters from various areas in order to save costs, enhance reliability, and drive development.

Zain KSA also participated extensively in reviewing and updating regulations for telecommunications and wireless connection towers in cooperation with the Ministry of Municipal and Rural Affairs, and addressed a challenge facing implementing expansion projects to develop infrastructures and equip them with modern technologies to improve customer experiences. Additionally, Zain KSA finalized most pending issues with relevant secretariats, municipalities and government agencies, regarding licensing mobile network towers and financial settlements for earlier phases in cooperation with the Ministry of Communications and Information Technology.

Moreover, Zain KSA supported numerous entertainment and cultural programs and took part in several seasons including Al Soudah, Al Diriyah, Souq Okaz, and other seasons, also sponsored various online gaming exhibitions through providing high-speed connectivity and remarkable responsiveness via the 5G network to enable participants to complete processes seamlessly and quickly. Zain KSA also notably inaugurated the 5G network at the Neom Bay Airport which is regarded as the Kingdom's futuristic gateway, and additionally provided outstanding 5G network technologies during the launch of the "Saudi, Welcome to Arabia!" tourist e-visa.

Zain KSA strives to position itself as a first mover in adopting the latest applications and technologies, and has been successful in growing its clientbase thanks to a strategy of embracing innovative products, services, and pricing methods, striving to offer the best possible value to consumers. Over the past few years, the company has confirmed its dedication to innovation through launching a series of network development projects. It continues to exert efforts to provide its clients with the best services and best customer experiences in the market.

Zain KSA's management believes that the recent enhancements applied on the network present a significant competitive edge within a market dependent on dynamic infrastructures to enable a rapid and effective consumption of data. In 2019, the company made significant capital investments to launch 5G services in Saudi Arabia, and expanded and enhanced the network over a series of phases to provide infrastructures appropriate for various applications and a large volume of users throughout numerous industrial, medical, energy, and other sectors. The constant network upgrade and expansion project, named "Sophia Project", underlines the company's commitment to driving the ICT sector forward through launching the first phase of 5G network services in Saudi Arabia in the last quarter of 2019. Zain KSA's 5G network is regarded as the third largest of its kind globally and the largest in the Middle East, Africa, and Europe, with over 2600 service points covering 27 cities. It obtained the Best 5G Infrastructure Deployment Award at the 13th edition of the Telecom Review Leaders' Summit which took place in Dubai. The project will continue over two more phases which will involve expanding the coverage of the 4G and 5G networks in addition to promoting the primary virtual network to allow more 5G network services in the future. The transmission network will additionally be developed and fiber optic networks expanded to reach new areas and have an improved presence within cities.

Furthermore, 3G network services currently cover more than 566 cities, while 4G network coverage has reached 479 cities. The company has resorted to expanding and enhancing the network through Sophia Project by adding 530 advanced towers and 500 4G towers since 2019, resulting in population coverage rates rising to the following:

1. 2G network: 99% of the population
2. 3G network: 98% of the population
3. 4G network: 93% of the population
4. 5G network: 43% of the population

As for Zain KSA's transmission network, the company was able to improve a significant portion of the operation costs for connecting the network after investing in fiber optics. Zain KSA believes in the importance of possessing a strong infrastructure of fiber optics as it begins to implement 5G network programs, and the network's fiber optic infrastructure is expected to undergo more expansion in the near future. In addition, Zain KSA has completed the second stage of the agreement executed with Integrated Dawiyat Company, a subsidiary of Saudi Electricity Company, which allows Zain KSA to utilize the fiber optic infrastructure of the Saudi Electricity Company targeting more than 180,000 households across the Kingdom.

With regard to operations and maintenance, the company embraces an effective and ideal model to manage its operations while ensuring maximum network efficiency, robust performance, quality services, and high customer satisfaction. Zain KSA relies on services managed in cooperation with skilled providers to manage all its network systems and IT systems throughout its critical operations, and constantly ensures it is providing services at the highest possible quality and least possible cost. Over the last few years, the company's maintenance costs decreased as a result of the ongoing regional merging process for field operations as part of an agreement with a contracted seller as well as the convergence of the network management and IT department into one unit. Zain KSA also periodically reviews maintenance activities to reduce costs and improve service quality, as well as to enhance its capabilities in managing and maintaining the company's operations.

2. Leadership

a. Board of Directors

HH Prince Nayef bin Sultan bin Mohammed bin Saud Al Kabeer – Chariman of the Board

A prominent businessman with extensive expertise in vital fields such as general investments, petrochemicals, foodstuffs, insurance, wholesale and retail, among others, HH serves in several leading positions, including as Chairman in many conglomerates, including the renowned company Almarai. HH also chairs and serves as member in the boards of several other establishments, including Alyamamah Cement Company, Farabi Gulf Petrochemicals Company, the Arabian Shield Insurance Company, Tarabot Investment and Development, and the Global Co. for Downstream Industries (GDI), among several others. HH Prince Nayef holds a BSc in Business Administration (Marketing) from King Saud University.

Bader Nasser Al Kharafi – Vice Chairman of the Board (Vice Chairman and Group CEO of Mobile Telecommunications Company KSCP 'Zain Group')

Mr. Bader Al-Kharafi has held several key positions, most notably serving as Vice-Chairman of Zain Group Kuwait since February 2014, and Group CEO since March 2017, after having joined the group's Board of Directors in April 2011. He has served as board member of Al-Khatem Telecommunications Company, an Iraq-based joint-stock company, since September 2013. In October 2015, he was appointed as Vice-Chairman of Zain KSA. Additionally, Mr. Al-Kharafi is currently the Chairman, Vice President, and board member of several companies within and outside Al-Kharafi Group. Mr. Al-Kharafi holds an Executive MBA from London Business School and a Bachelor's degree in Mechanical Engineering from Kuwait University.

Ossama Michel Matta – Member of Board (Zain Group CFO)

Joining Zain in 2004, Mr. Ossama Matta was appointed Zain Group CFO in June 2010. He has vast experience in finance, accounting and investment management and a strong advocate of firm corporate governance and transparency. Throughout his career he has held many leading positions including serving as member of the Board of Directors in the Nexgen Advisory Group (a UAE-based LLC), Zain Procurement Facilities (a Bahrain-based LLC), Zain UK Facilities (Bahraini LLC), Morpeth Limited (UAE LLC), and Kuwait Sudan Holding Company, among others. Mr. Matta holds an Executive MBA (Emphasis in Finance, Strategic Management, and Project Management) from the American University of Beirut, Lebanon and is a Certified Public Accountant.

Scott Gegenheimer – Member of the Board (Group CEO – Operations of Zain Group)

Mr. Scott Gegenheimer is a telecom veteran with over 25 years of experience and a track record of remarkable accomplishments. He served as CEO of Zain Group from December 2, 2012 until March 12, 2017 when he assumed his current position as Group CEO-Operations. He occupies various senior management positions including as Member of the Board of Directors/ Management in Nexgen Advisory Group (a UAE-based LLC), Zain Procurement Facilities (a Bahraini LLC) and FOO (a Lebanese Joint Stock Company). Mr. Gegenheimer holds a BSc in Finance and Management from Northern Illinois University MBA from DePaul University in Chicago.

Raied bin Ali Al Saif – Member of Board (Director of the Investment and Business Development Department of the Office of HH Prince Sultan bin Mohammed bin Saud Al-Kabeer Al Saud)

Mr. Raied Al Saif has a long history in the field of investment management, alongside his experience in banking. He has held many leadership positions, including serving as Chairman of the Arab National Investment Company (ANB Invest), and a member of the Board of Directors of the Arabian Shield Insurance Company, in addition to being a member of several other Boards of Directors. Mr. Raied holds a BSc in Accounting from King Saud University.

Saud Al-Bawardi – Member of Board (CEO of United Trading)

Mr. Saud Al-Bawardi served as the Executive Vice President and Chief Operating Officer of Zain until end of 2015. He has over 16 years of experience in the telecoms and banking sectors. Mr. Al-Bawardi also holds several leadership positions, including being a board member of the National Gypsum Company and Chairman of both the Excellent Foods Company and the Smart Parking Company. He holds an MBA in International Business from the Swiss Business School, Zurich, Switzerland (2017), alongside a BSc in Media from King Saud University (1998).

Hisham bin Mohammed Mahmoud Attar – Member of Board (Director of the Local Partnerships Development Department in the Public Investment Fund)

Mr. Hisham Attar has extensive experience in the field of investment portfolio management. He held several leadership positions, serving as member of the Executive Committee of the Saudi Military Industries Company (SAMI) and a board member of the Industrialization and Energy Services Company (TAQA) in addition to holding several leadership positions in the Body Masters company. He also worked as Senior Broker at the National Commercial Bank. Mr. Attar holds a BA in Economics and Business from Brown University, Providence, Rhode Island USA.

Martial Anthony Caratti – Member of the Board (CFO of Omantel)

Mr. Martial Caratti joined Omantel in 2015 as Group Chief Financial Officer, having amassed more than 30 years of experience in the telecoms industry in the Middle East and Europe, beginning his career in 1986 at NCR in France. He then served as CFO of a subsidiary of France Telecom from 1992 to 1996. In 1996, he became France Telecom Group's controller for customer branches and the Financial Director of the French telephone operator Orange Group, which was part of France Telecom at the time. He also served as Vice President of Finance-Content division at Orange Group London from 2000 to 2004 and as Vice President of Finance-Content division at Orange Group France from 2005 to 2006. Mr. Caratti held the position of Head of Financial Management at Tunisia's telecom operator, Ooredoo Telecom from 2008 to 2015. He holds a BA in Finance and Accounting from ESLSCA University in Paris.

Firas Oggar – Member of the Board[1] (Head of Legal, Zain Group)

Joining Zain Group in 2017 as Head of Legal, Mr. Firas Oggar has extensive experience in legal affairs, whereby he received several certificates, including his accreditation as a qualified lawyer at the Paris Bar after taking oath at the Court of Appeal of Paris in 2003, and as an accredited lawyer from the University of Paris' Law Faculty, France, in 2001. He also holds a certificate in English law from UK Warwick University's School of Law in 1999. Prior to joining Zain, Mr. Oggar held several senior management positions including serving as Head of Legal at Foulath Holding Company (Bahraini Public Joint Stock Company) between 2012 and 2015 and as Group General Counsel at Al Ghurair Investment Group between 2015 and 2017. Mr. Oggar holds a Master's degree in International and European Law from the University of Lille, France and a Master's degree in International Business Law from the University of Paris, France.

Abdul Aziz bin Yaqoub Al Nafisi[1] – Member of the Board (Vice Chairman of the Kuwait Finance House)

Mr. Abdul Aziz Al Nafisi has ample experience spanning more than four decades in the fields of telecoms, finance and various investments. He holds a BA in Business Administration from Tipper California State University, USA.

[1] Mr. Firas Oggar was elected by the General Assembly on April 18, 2019 replacing Mr. Abdulaziz bin Yaqoub Al Nafisi as of April 26, 2019.

b. Executive Management

Eng. Sultan Bin Abdulaziz AlDeghaither – Chief Executive Officer

Eng. Sultan Bin Abdulaziz Al Deghaither serves as the Chief Executive Officer of Zain KSA as of July 2018. A highly accomplished telecom professional with tremendous operational, technical, and customer management expertise, Al Deghaither has led many complex projects that repositioned Zain KSA as a company of reference for data quality and service in the Kingdom. He served as the head of the 4G network team; a project that was launched by Zain in 2011, and led Project Reload, one of the largest projects in the company's history with a total investment of SAR 4.5 billion, taking the operation to the next phase of growth providing innovative technologies and services.

Being at the helm of Zain's strategic transformation, Al Deghaither was deeply involved in the growth and the development of the company's networks to provide the most comprehensive coverage across Saudi Arabia playing a key role in the growth of the telecommunications sector and the economic and social development of the Kingdom. Under Al Deghaither's leadership, Zain KSA's digital growth strategy has proven to be profitable across all key operations.

Previously, Al Deghaither was the Chief Technology Officer of Zain KSA, and served in a number of senior roles including Network Engineering Director and Chief Operating Officer, playing an instrumental role in the company's evolution and in developing Zain KSA's operations on commercial and technical levels as well as enhancing customer experience.

Al Deghaither holds a bachelor's degree in Telecommunications and Electrical Engineering from King Saud University and an advanced management program degree from IESE. With over 10 years of executive experience, Al Deghaither is also a subject matter expert in the development and management of technologies to produce the best breed of cost-effective solutions.

Mehdi Khalfaoui – Chief Finance Officer

Mehdi Khalfaoui was appointed as Chief Financial Officer of Zain KSA in February 2017. He is responsible for financial oversight of the company with the aim to deliver strategic improvements in profitability and a strategic refocus on commercial investment. Under Khalfaoui's leadership, Zain KSA achieved several noteworthy milestones including enhanced cash liquidity positions, together with improved capital structure and quality network.

Khalfaoui has held several roles within Zain Group since 2009 with particular focus in transformation, cost optimization and team building assignments. He has extensive international ICT sector experience in various areas within the telecommunications industry, namely: Financial Management, Performance Monitoring, Budgeting and Planning, Treasury and Corporate Finance.

Prior to this, Khalfaoui held key strategic and customer focused roles with leading international telecom companies, where he served as Budget & Planning Analyst for Orascom Telecom and as Financial Analyst for SGCIB.

Khalfaoui holds a master's degree in Corporate Finance from INSEEC and a Professional Learning Experience Degree from Harvard Business School for the Program of Leadership Development.

Eng. Abdulrahman Al-Mufadda - Chief Technology Officer

As the Chief Technology Officer of Zain KSA since February 2019, Al Mufadda manages development teams by ensuring their full integration into the company's organization, as well as directing the current technology and constructing technology-related decisions within Zain's digital innovative journey. He plays a key role in the management and development of Zain KSA's applications.

Al Mufadda initially joined Zain KSA as Planning Delivery Manager in 2013 before assuming several managerial roles including Network Delivery Director, Delivery General Manager and Operations Executive General Manager. Throughout his tenure with Zain KSA, Al Mufadda held a pivotal role in implementing Project Reload, one of the biggest projects in Zain KSA's history and the USF Broadband Project, both of which are part of the National Transformation Program 2020. His strategic and digital background allowed him to take a holistic view on transformational matters and help guide the necessary developments.

With 15 years of experience in the telecommunications industry, prior to joining Zain KSA, Al Mufadda held several senior technical positions including as R&D engineer and Project Manager within Ericsson Group.

A competent leader and project manager, Al Mufadda is a certified Project Management Professional and holds a bachelor's degree in Electrical Engineering from King Saud University.

Eng. Saad A. Al-Sadhan - Chief Business and Wholesale Officer
Eng. Saad Al Sadhan has held the position of Chief Business and Wholesale Officer since July 2019. In this role, he is responsible for Zain KSA's wholesale business and the end-to-end management of the company's carrier customers and suppliers globally. He strives to improve the company's network capabilities through strategic investments to meet both retail and wholesale demand. Al Sadhan's is the ideal candidate to capitalize on Zain KSA's assets to implement the digital transformation strategy, given his industry experience.

Joining Zain KSA in July 2016 as Wholesale Senior Director, having over 15 years of experience in the telecommunications industry, Al Sadhan previously served as the Executive General Manager within the wholesale commercial department of a leading telecom company. He also was a Communication Engineer of Ericsson, bringing in solid experience and strengthening Zain KSA's brand by attracting international affiliates, roaming and wholesale partners and third party networks for the company's wholesale expansion.
Al Sadhan holds a bachelor's degree in Electrical Engineering from King Fahad University of Petroleum and Minerals (KFUPM).

Eng. Sherif Tahoun - Chief Commercial Officer
As Chief Commercial Officer of Zain KSA. Tahoun is leading Zain KSA's efforts to become a leading digital service provider based on the implementation digital transformation initiatives, seeking growth in enterprise solutions, optimizing operations and re-engineering customer experience.
Tahoun joined Zain KSA in 2015 as Chief Sales Officer. His professional career spans over twenty-five years working predominantly in delivering business growth and transformations across large organizations in high profile industries such as Telecoms, FMCG, Oil & Gas, and Investment Management.
Prior to joining Zain KSA, Tahoun held a number of key commercial and customer-focused roles in a variety of technology and consulting companies including Vodafone and Etisalat where he served as Head of Consumer Sales and Channel Marketing, and Commercial Consultant respectively. He also held the post of Managing Director of Tristar LL Pylon S.A.E. Egypt from 2010 to 2015.
Eng. Tahoun holds a bachelor's degree in Civil Engineering from Cairo University and is a PMI Agile Certified Practitioner (ACP).

Shatha Mutlab Al Nafeesa - Chief Human Resources Officer (appointed in 2019)
Ms. Shatha Al Nafeesa has served as Chief Human Resource Officer of Zain KSA since September 2019. As an HR professional, Al Nafeesa is responsible for retaining talent, fostering a culture of success and providing a staffing blueprint for the future.
With more than 15 years of experience in HR leadership and a background in both pharmaceutical and telecommunications, Al Nafeesa is a top-performing and result-oriented professional bringing in expert knowledge in talent development, change management, leadership development and employee brand engagement.
Prior to joining Zain KSA, Al Nafeesa took on several leadership positions in the health sector and served as an HR consultant for a number of leading entities in both the public and private sector, developing HR strategies that provide exceptional service and ensure profitability, growth, and long-term success for the organization.
Al Nafeesa holds a bachelor's degree in Human Resources Management from King Abdulaziz University.

Faris AlZahrani - Chief Human Resource Officer (resigned in 2019)
AlZahrani took the role of Chief Human Resource officer of Zain KSA in October 2018. As an experienced HR professional and a business leader across both the consumer and B2B sector, he played a pivotal role in automating HR services and leading Zain KSA's people and organization strategy which included developing talent and leadership, strategic capabilities, and an engaging culture and work environment.
AlZahrani first joined Zain KSA in 2015 as General Manager of Human Resource Services. With over 15 years of experience in the telecommunications industry, coupled with commercial experience and business acumen, AlZahrani previously served as Business Development Director in a leading telecom company, where he was responsible for improving the company's market position, building long term relationships with prospects and developing new digital concepts with traditional delivery to increase revenue and maximize profits.
AlZahrani holds a bachelor's degree in Business Administration from Lakehead University, Canada.

Yahya al Mansour - Chief Sales and Distribution Officer (resigned in 2019)

Al Mansour had served as Chief Sales and Distribution Officer of Zain KSA since July 2018. Throughout his role, Al Mansour was a core element in the company's network expansion strategy in terms of driving the digital future to empower societies, accelerate value creation, provide unparalleled customer experience, and advance the digitization of customer processes. This strategic approach fortified Zain KSA's distribution footprint and increased the company's market share. Thriving through his role, Al Mansour brought greater agility to Zain by constantly seeking new market opportunities, accelerating innovation, and expanding Zain KSA's portfolio across all verticals to create new engines of growth, increase revenue diversification and fortify Zain KSA's position as the leading data-centric operator.

With over 20 years of leadership and strategic sales experience in the telecom sector, Al Mansour is skilled in managing complete product lifecycles, delivering sales and profit objectives across all major verticals and creating a streamlined structure and seamless end-to-end processes.

Prior to joining Zain KSA Al Mansour served in a number of executive positions including as Chief Sales Officer, Enterprise Business Unit GM SEM Marketing, and Head of Venture. Al Mansour is an accomplished business leader who has the ability to continuously adapt and understand the dynamic business environment.

Al Mansour holds an MBA from the University of Central Florida and has completed various executive education programs from prestigious universities including Harvard Business School, London Business School, Massachusetts Institute of Technology, INSEAD and Columbia University Graduate School of Arts and Sciences.

Eng. Maher Mohammed Al Fawaz - Acting Chief Sales and Distribution Officer (appointed in 2019)

Eng. Maher AlFawaz served as Zain KSA's Acting Chief Sales and Distribution Officer since September 2019 and has played a pivotal role in expanding and fortifying Zain KSA's distribution footprint and market share.

Al Fawaz has vast experience in Network Engineering and Customer Care Services, and through his tenure in Zain KSA, has helped drive the company's network development, customer care and evolution of the call center operations. He initially joined Zain KSA as Capacity Manager back in 2013.

Previously, Al Fawaz served as Chief Engineer prior to joining Zain KSA, demonstrating a history of strong business and technology development expertise.

AlFawaz holds a bachelor's degree in Electrical Engineering from King Saud University and an MBA from Prince Sultan University.

Faris Al Ribdi - Vice President, Regulatory Affairs and Compliance

Faris Al-Ribdi has been Zain KSA's Vice President of Regulatory Affairs and Compliance since September 2019. Through his role, Al-Ribdi excels at providing regulatory support and managing all interactions with the Regulatory Authorities at MCIT and CITC, ensuring compliance with regulatory decisions and company license obligations to facilitate the launch of Zain KSA's digital services. Al-Ribdi began his journey with Zain KSA in January 2018, when he was first appointed as General Manager of Regulatory Affairs and Compliance and shared a path of success with the company.

Al Ribdi previously served as Director of Regulatory Relations and has over 15 years of strategic experience with leading telecom providers, in fields of regulatory, legal commerce and telecom. Powered with dynamism, Al Ribdi is continuously looking to improve and adopt new and better solutions in aligning with government bodies.

Al Ribdi holds a bachelor's degree in Information System from the Imam Muhammad Ibn Saud Islamic University.

Nada AlHarthi - Vice President, Business Affairs

AlHarthi joined Zain KSA as Vice President for Business Affairs in 2019. With a proven track record in defining compelling value propositions and developing effective business strategies, AlHarthi supports Zain KSA's expansion strategy and its commitment to meeting customers' needs with top services.

Backed by extensive experience in planning and strategy, AlHarthi took charge of several leadership roles within the Saudi Technology Development and Investment Company (TAQNIA), the National Center for Privatization & PPP, and the Ministry of Media. Passionate about sustainability and women empowerment, AlHarthi is active in the non-profit space and is a Cofounder of LEAN IN Saudi and Rofaida Women's Health Society.

AlHarthi holds a master's degree in Global Management from Thunderbird School of Global Management, Arizona, US and has completed various executive education programs including Stanford GSB's Executive Program in Women's Leadership and INSEAD's Management Acceleration Program as well as other certifications in Strategy.

Eng. Salah Al-Ghamdi - Vice President, Digital and Analytics

Al-Ghamdi has served as Vice President for Digital and Analytics of Zain KSA since November 2016. He took part in Zain KSA's digital transformation journey and held many responsibilities within the company which include setting the company's strategy and execution plans for new digital ventures, electronic channels, business intelligence and big data capability development. Under Al-Ghamdi's leadership, the company is now on a path to transform itself into a digital lifestyle operator and shall expand its operations in the areas of innovation, digital service provision and services for enterprises. Having acquired 17 years of experience in marketing, finance and communications, including senior roles at Ericsson and Arcom, Al-Ghamdi brings along a wealth of experience in establishing and leading diverse workforces in the telecommunicationssector.

Al-Ghamdi holds a Master's degree in Engineering Entrepreneurship and Innovation from McMaster University in Hamilton, Canada and a bachelor's degree in Electrical Engineering from King Saud University.

Eng. Hamad AlKatheri - Vice President, Risk Management and Information Security

Eng. Hamad AlKatheri assumed the position of Vice President, Risk Management and Information Security at Zain KSA in September 2019. Al Katheri took part in Zain KSA's implementation of a robust risk management process that is subject to regular reviews and continuous improvements. Thriving through his role, AlKatheri leverages his business expertise, professional skills and extensive experience to provide executive oversight and strategic direction, taking part in developing a robust enterprise risk management process that is subject to regular reviews and continuous improvement.

AlKatheri held several leadership positions in cyber-security in a number of leading private and public sector entities, including the Ministry of Foreign Affairs and the National Information Center. With 10 years of experience in the IT industry, AlKatheri is a key decision-maker with a unique ability to bridge business goals with technology enablers to produce value-based solutions.

AlKatheri holds a bachelor's degree in Computer Engineering from King Fahad University of Petroleum and Minerals and earned an Executive degree from Carnegie Mellon University, US.

Rayan Abdullah Al Turki - Vice President, Communication

Rayan AlTurki serves as Zain KSA's Vice President of Communication. As a marketing strategist with over 15 years of experience in marketing, communication and branding, Al Turki is mandated to drive the organization's growth in KSA and beyond, with a focus on effective integration of Zain's business units with its communication campaigns. He is also charged with leading Zain KSA's marketing strategy in the launch of services and investments in upcoming technologies.

Prior to his position with Zain KSA, Al Turki served as General Manager of Marketing at the Ministry of Transport, along with several executive roles in leading organizations including Careem and the Ministry of Commerce and Investment, demonstrating a track record of success in the ICT sector.

AlTurki holds an MBA from Rochester Institute of Technology in the US and a bachelor's degree in Computer Science from King Saud University.

Wahdan Al Kadi - Vice President, Investor Relations

Al Kadi has served as Vice President for Investor Relations of Zain KSA as of August 2019. In this role, Al Kadi focused on developing Zain KSA's strategic position and building relationships with the international investor community. His experience and expertise in the communications infrastructure industry, as well as his deep relationships within the financial markets was incredibly valuable for Zain KSA to fulfill its potential, drive market share growth and take the lead in strategic development.

Al Kadi's deep understanding of telecom, finance and technology along with his strong relationships in the investor community enhanced Zain KSA's position among global investors and helped articulate Zain KSA's vision around both internal and external communication audiences.

Al Kadi brings to Zain KSA more than 17 years of experience in business development and strategy. He serves as member of the board of UBS, a closed joint stock company in KSA offering wealth management and investment banking services. Most recently, Al Kadi was a member of Chubb's risk committee, where he previously served as Chairman of Chubb's Audit Committee since 2011. Al Kadi also held a number of leadership positions in Tharawat Holding and Hoshan Holding, before managing Tatweer Sports as CEO.

Al Kadi holds an EMBA in Executive Business Administration and a bachelor's degree in Industrial Management and from King Fahad University of Petroleum and Minerals, along with a certification in Strategic Investment Management from London School of Business.

Ibrahim Al Habardi - Vice President, Legal Affairs

AlHabardi has served as VP of legal affairs for Zain KSA as of September 2019, where he is responsible for overseeing all corporate legal matters, negotiating complex deals, determining best practices for enforcement of agreements and ensuring compliance with the organization's governing structures. AlHabardi participated in drafting legal documents for the company within the scope of KSA's telecom regulatory area, while also achieving Zain KSA's strategic objectives in a legal and safe way.

AlHabardi has extensive experience in all legal and Shari'a related matters within KSA. He advises on corporate filings and records, corporate governance, and preparation of business agreements, including joint ventures and shareholder's, sale and purchase, and nondisclosure agreements.

AlHabardi is currently Of Counsel at Jones Day in Saudi Arabia. Prior to his Role with Jones Day he also took the role of in-house-counsel for the largest diversified infrastructure company in the Kingdom, where he advised nearly 46 subsidiaries of the holding company in industries that included district cooling, construction, water treatment, power generation, water desalination, real estate, and operation and maintenance. Al Habardi also has experience in capital markets and previously served as an in-house-counsel at Al Rajhi Capital, one of Saudi Arabia's largest banks.

AlHabardi holds a master's degree in Law from University of Connecticut School of Law and a bachelor's degree in English Language and Literature from Georgetown University. He also holds two advanced certificates in Saudi capital market laws and regulations.

Abdulaziz Al Toaimi - Internal Audit General Manager

Abdulaziz AlToaimi occupies Zain KSA's Internal Audit General Manager position since December 2017. AlToaimi is in charge of managing audit processes, mapping existing and emerging risks, managing key risk areas, advising management on key issues and providing compliance checks for external regulations as well as internal policies unlocking value for Zain KSA.

With over seventeen years of experience in the telecom sector, Al Toaimi previously served as Investment and Special Audit Assignment Expert, where he was responsible for developing leading telecom governance and regulatory frameworks in line with the applicable regulations and professional ethics, while promoting high standards of control and risk management. He also held senior Internal Audit and Compliance roles with the Capital Market Authority and Saudi Industrial Development Fund.

AlToaimi, is a Certified Public Accountant with an MBA from University of Colorado State and a bachelor's degree in Accounting from King Saud University.

3. Financial Review

Material difference in the operational results:

Operational profit reached SAR 1,510 million for the current year compared to operational profit of SAR 1,219 million in previous year due to an increase of revenue by 11% and an increase in cost of revenue by 15% which was offset by decrease in operating and administrative expenses by 11%.

1. Balance Sheet Highlight.

The following table summarizes the financial position of Zain KSA as of December 31, 2015, 2016, 2017, 2018 and 2019:

SAR Million	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Audited	Change 18/19	% Change 18/19
Current Assets	4,096	3,356	3,710	3,515	**3,404**	(111)	-3%
Non-current Assets	21,952	23,158	22,230	22,808	**24,334**	1,526	7%
Total Assets	26,048	26,514	25,940	26,323	**27,738**	1,415	5%
Current Liabilities	6,498	6,582	11,488	7,352	**4,488**	(2,864)	-39%
Non-current Liabilities	14,998	16,374	10,888	14,959	**19,147**	4,188	28%
Total Liabilities	21,497	22,956	22,376	22,311	**23,635**	1,324	5.93%
Shareholders' Equity	4,552	3,559	3,563	4,012	**4,103**	91	2%
Total Liabilities and Shareholders' Equity	26,048	26,515	25,940	26,323	**27,738**	1,415	5%

Source: Audited financial statements for the years ended 2015, 2016, 2017, 2018 and 2019
Note: Numbers may not sum up due to the rounding

As of December 31, 2019, the Company's total assets amounted to SAR 27,738 million, of which SAR 16,216 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 6,080 million, which represented 22% of total assets.

At the same date, the Company's total liabilities amounted to SAR 23,635 million, of which 71% amounting to SAR 16,750 million are related to the following:

- Murabaha Facility
- Advances from Shareholders
- Junior Debt (ICBC)
- Governmental Loan
- Junior Murabaha

2. Overview of the Company's Borrowings

As of December 31, 2019, the outstanding balances of borrowing arrangements amounted to SAR 15,384 million. The following table summarizes those borrowing arrangements:

SAR Million	Term	Principal Amount	Net Repaid/ Addition During 2019	Lender	Outstanding Balance	Maturity
Murabaha Facility	5 years	4,835	(300)	Consortium of 8 banks	4,535	Jun 29, 2023
Advances from Shareholders	Open	5,444	(424)	Founding Shareholders	5,020	Open
Junior Debt – ICBC	3 years	2,250	2,250	Industrial & Commercial Bank of China	0	Aug 08, 2019
Government Loan	14 years	Up to 800 per Year	-	Ministry of Finance	3,578	Jun 01, 2027
Junior Murabaha	3 years	2,250	-	Consortium of 5 banks	2,250	Jun 15, 2021
Total					15,384	

Source: Audited financial statements for the years ended 2019
Note: Numbers may not sum up due to the rounding

Syndicated Murabaha Financing

On July 31, 2013, the Company refinanced 2009 "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 five years, until June 30, 2018, after it was due on July 31, 2013. This facility principal stood at SAR 8.6 billion with the SAR portion totaling SAR 6.3 billion and the USD portion totaling USD 0.6 billion (SAR 2.3 billion). This 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 a mandatory minimum amount due, with 75% due at maturity date. The Company settled SAR 2.7 billion from this facility bringing the outstanding principal to SAR 5.9 billion at the maturity date.

On June 5, 2018, the Company has refinanced 2013 "Murabaha financing agreement" and extended the maturity date for additional five years until June 29, 2023 with a three years' grace period. The new facility principal stands, at the financing day, at SAR 5.9 billion with the SAR portion totaling SAR 4.25 billion and the USD portion totaling USD 0.45 billion (SAR 1.705 billion). Moreover, the agreement includes a working capital facility of SAR 647.3 million with the SAR portion totaling SAR 462.4 million and the USD portion totaling USD 49.3 million (SAR 184.9 million) for two years. The working capital facility has not been utilized yet.

Financing charges, as specified under the "Murabaha financing agreement", are payable in quarterly installments over five years. The new facility is secured partially by a guarantee from Mobile Telecommunication Company K.S.C and a pledge of Company shares owned by some of the founding shareholders, alongside the assignment of certain contracts and receivables and fixed assets up to the outstanding balance.

The Company is complying with the existing loan covenants.

Syndicated Murabaha Financing voluntary payments

- During the third quarter of 2018, the Company made an early voluntary payment of SAR 600 million (SAR portion: SAR 428.3 million, and the USD portion: USD 45.8 million).
- During the fourth quarter of 2018, the Company made a second early voluntary payment of SAR 525 million (SAR portion: SAR 374.81 million, and the USD portion: USD 40.05 million).
- During the second quarter of 2019, the Company made the third early voluntary payment of SAR 300 million (SAR portion: SAR 214.2 million, and the USD portion: USD 22.88 million).

Advances from Shareholders

The founding shareholders have provided and they continue to provide advances to the Company since 2007. The outstanding balance as of December 31, 2019 amounted to SAR 5 billion. Financing cost began 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 junior debt and loans

Junior Debt – ICBC

On August 15, 2016, the Company 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 and payable at maturity. The facility agreement signed with the Industrial and Commercial Bank of China replace the existing syndicated facility. The facility is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. On March 18, 2018, the Company extended the final maturity date to August 8, 2019. On July 3, 2019, the Company settled the said facility from the proceed of the new Junior Murabaha facility.

Governmental Loan

During 2013, the Company has signed an agreement with the Ministry of Finance, Saudi Arabia to defer payments of its dues to the government for the next seven years, estimated at SAR 5.6 billion. These deferred payments under this agreement will be bearing commercial commission payable annually, while the amount due will be repayable in equal installments starting June 2021. The amount deferred by the Company as of December 31, 2019 amounted to SAR 3,578 million (December 31, 2018: SAR 2,898 million).

Junior Murabaha

On June 16, 2019, the Company has signed a new Junior Murabaha facility agreement amounting to SAR 2.25 billion with a consortium of five banks to settle its existing commercial loan which has been obtained from the Industrial and Commercial Bank of China (ICBC). The agreement has better terms and will have lower financing cost. The duration of the agreement is two years, with an option to be extended for one year upon the Company's request. This loan is fully secured by a corporate guarantee from Mobile Telecommunications Company K.S.C.P. Financing charges are payable in quarterly installments.

3. Statements of Operation Highlights.

The following table summarizes the statements of operation for the years ended on December 31, 2015, 2016, 2017, 2018 and 2019:

SAR Million	2015 Audited	2016 Audited	2017 Audited	2018 Audited	2019 Audited	Change 18/19	% Change 18/19
Revenues	6,741	6,927	7,306	7,531	**8,386**	855	11%
Cost of Revenues	(2,790)	(2,526)	(2,510)	(2,106)	**(2,418)**	(312)	15%
Gross Profit	3,951	4,401	4,796	5,425	**5,968**	543	10%
Operating and administrative expenses	(2,322)	(2,605)	(2,279)	(2,416)	**(2,146)**	270	-11%
EBITDA	1,629	1,796	2,517	3,009	**3,822**	813	27%
Depreciation and Amortization	(1,770)	(1,850)	(1,614)	(1,790)	**(2,312)**	(522)	29%
Net profit /(loss) before finance fees and other income and Zakat	(141)	(54)	903	1,219	**1,510**	291	24%
Finance & other Income	7	32	18	44	**37**	(7)	-15%
Financial Charges	(838)	(956)	(910)	(931)	**(1,045)**	(114)	12%
Net Profit/(Losses) for The Year before Zakat	(972)	(979)	12	332	**503**	171	52%
Zakat	-	-	-	-	**(19)**	(19)	
Net profit /(loss) for the year	(972)	(979)	12	332	**485**	153	46%

Source: Audited financial statements for the years ended 2015 2016, 2017, 2018 and 2019
Note: Numbers may not sum up due to the rounding

- Revenue reached SAR 8,386 million for 2019 compared to SAR 7,531 million the previous year posting an increase of 11%, where data revenue represents 45% (excluding value added services & SMS).
- Gross profit reached SAR 5,968 million in 2019 compared to SAR 5,425 million in the previous year, posting an increase of 10%, with gross profit margin reaching 71% compared to 72% in the previous year.
- Operating and administrative expenses reached SAR 2,146 million in 2019; a decrease of 11% compared to SAR 2,416 million the previous year.
- EBITDA reached SAR 3,822 million in 2019 compared to SAR 3,009 million the previous year, posting an increase of 27%, with EBITDA margin reaching 46% compared to 40% in the previous year.
- Depreciation and amortization expenses reached SAR 2,312 million in 2019 compared to SAR 1,790 million the year before, posting an increase of 29%.
- Operational profit reached SAR 1,510 million in 2019 compared to operational loss of SAR 1,219 million the previous year.
- Net profit after zakat and tax reached SAR 485 million in 2019 compared to net profit after zakat and tax of SAR 332 million the previous year.
- Total comprehensive income reached SAR 384 million in 2019 compared to total comprehensive income of SAR 318 million in the previous year.
- Profit per share reached SAR 0.831 in 2019 compared to profit per share of SAR 0.569 in the previous year.
- Total shareholders' equity (there is no minority interest) reached SAR 4,102 million for 2019 compared to SAR 4,012 million the previous year, an increase of 2%.
- The accumulated deficit reached SAR 1,608 million for 2019, representing 28% of the Company share capital of SAR 5,837 million, compared to an accumulated deficit of SAR 1,800 million the previous year representing 31% of the Company share capital.
- Zain KSA's subscriber base comprised 7.6 million subscribers in 2019 compared to 8 million the prior year.

4. The following Table Presents Revenue Breakdown for Years 2015, 2016, 2017, 2018 and 2019:

SAR Million	2015	2016	2017	2018	2019	Change 18/19	% Change 18/19
Usage Charges	6,161	6,127	4,471	4,437	**5,168**	731	16%
Subscription	437	778	2,673	2,337	**1,921**	(416)	-18%
Sale of goods	-	-	-	727	**1,136**	409	56%
Other	143	21	162	30	**161**	131	437%
Total Revenue	6,741	6,926	7,306	7,531	**8,386**	855	11%

Source: Audited financial statements for the years ended 2015, 2016, 2017, 2018 and 2019
Note: Numbers may not sum up due to the rounding

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 the telecommunication activities are initiated from different regions depending on the location. Furthermore, revenue generated by international calls couldn't be linked to any region since they occur overseas.

Basis of Preparation of the Financial Statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standard "IFRS" as endorsed by SOCPA in the Kingdom of Saudi Arabia along with other pronouncements endorsed by SOCPA and the Company's By-Laws.

IFRS 16 has been applied in preparation of these consolidated financial statements.

Description of the class and number of any convertible debt instruments, contractual securities, preemptive right or similar rights issued or granted by the company during 2019

The Company signed in 2019 a new SAR 2.25 billion Islamic Murabaha facility agreement, with a consortium of five banks, to pay its existing commercial loan with ICBC. The loan is for two years with an option to be extended for one additional year and is fully secured by Mobile Telecommunications Company K.S.C.P.

Apart from what is stated above, the Company has no debt instruments, options, guarantees or similar rights that are convertible until the date of this report.

Description of any conversion or subscription rights under any convertible debt instruments, contractually based securities, warrants or similar rights issued or granted by the Company

Given the improvements in the company›s operations and its ability to reduce its accumulated losses from around 38% to around 28%, the company's board of directors decided on February 10, 2020 to amend the recommendation to reduce the Company's capital and a subsequent capital increase through a rights issue to be as follows:

1. Capital Reduction

The Company's capital will be reduced from 5,837,291,750 SAR to 4,229,165,260 SAR, representing a decrease in the capital of around 28%. The reason for the decrease in the capital is the amortization of accumulated losses amounting to 1,608,126,490 SAR. The capital will be reduced by canceling 160,812,649 shares. As a result, the number of issued shares will be reduced from 583,729,175 shares to 422,916,526 shares. The capital reduction will become effective at the end of the second trading day after the extraordinary general assembly meeting in which the decrease was resolved. The percentage of ownership of each shareholder in the Company will not change as a result of the capital reduction and the capital reduction will not have any effect on the existing obligations or operations of the Company.

2. Capital Increase Through Rights Issue

Following the capital reduction, the Company plans to increase its capital from 4,229,165,260 SAR to become SAR 8,729,165,260 through a rights issue with a total value of 4,500,000,000 SAR. The rights issue will be offered to those shareholders holding shares on the date of the Extraordinary General Assembly meeting in which capital increase through right issues was resolved and whose names so appear in the register of the company's Shareholders at the Depository Center at the end of the second trading day following the date of the General Assembly's Meeting.

The Company anticipates that the capital reduction and rights issue will pave the way for dividend distribution to the Company's shareholders after extinguishing all accumulated losses, in addition to the injection of additional fresh cash which will be used to reduce the Company's debt on the balance sheet and therefore result in significant interest savings. The capital re-structuring is expected to improve the financial performance profitability, and leverage ratios of the Company.

The proposed capital reduction and subsequent rights issue are subject to obtaining prior approvals from the relevant authorities including the Capital Market Authority and the relevant extraordinary general assembly meetings. The Company will make further announcements upon submitting the capital reduction and rights issue applications to the Capital Market Authority.

Statutory Payments:

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 2018 and paid zakat and withholding tax according to the filed returns.

On the 18th of Ramadan 1436H (corresponding to July 7, 2015), the Company received the Zakat and withholding tax assessments from the General Authority of Zakat and Tax (GAZT) for the years 2009 to 2011 whereby Zain KSA was requested to pay an additional amount of SAR 620 million, of which SAR 352 million related to Zakat differences and SAR 267 million as withholding tax subject to delay penalty payable as 1% for every 30 days from the due date up to the settlement date.

Zain appealed this claim for additional payments on August 27, 2015, and was able to have the amount of SAR 352 million related to Zakat revoked entirely. In addition, SAR 219 million of the withholding tax claim was also revoked.

To appeal before the High Appeal Committee (HAC), Zain completed the required conditions in the Articles of the Saudi Tax Law, by paying the invoices issued by GAZT, amounting to SAR 48 million related to Withholding Tax (WHT) on November 16, 2017 and issued a bank guarantee for the amount of SAR 43 million related to the penalty generated from the delay in paying the WHT.

Based on the above, Zain received the reassessment letter for the paid amount and presented its objections before the HAC on the preliminary Appeal Committee opinion on November 19, 2017.

There is no financial impact as the Company has sufficient provisions to cover these amounts.

The following table includes the statutory payments pain in 2019 or outstanding as on December 31, 2019 as well as brief description and reasons thereof:

SAR Million	2019		Brief Description / Reasons
	Paid	Outstanding as on December 31	
Communications and Information Technology Commission	190	922	These amounts are related to the revenue sharing with the government as well as the Spectrum Fees.
Ministry of Finance	325	3,578	These mounts are related to the Ministry of Finance Loan. The amount paid was Interest fees whereas the outstanding amount will be payable in equal installments starting June 2021.
General Organization for Social Insurance	44	4	These amounts are related to GOSI Payment for Zain Employees. The outstanding amount is for December 2019 GOSI contributions.
General Authority for Zakat and Tax	-	19	This amount is for Zakat Provision for the year 2019.
	15	4	These amounts are related to the Withholding Tax. The outstanding amount is for the returns of November and December 2019.
	161	12	These amounts are related to Value Added Tax. The outstanding amount is for the return of December 2019.

Other than that, there are no other statutory payments.

Employees' End-of-Service Benefits

The value of the employees' end-of-service benefits, provided by Zain KSA, amounted to SAR 105 million as at December 31, 2019.

4. Corporate Governance

a. Shareholders

Zain KSA has a dedicated team to manage the relations with shareholders and investors in order to meet the requirements of local and global investors, respond to their inquiries and take their comments and suggestions, as it works to manage market expectations and provide a comprehensive disclosure of all relevant information.

The importance of investor relations comes to achieve Saudi Vision 2030's goals of diversifying the economy, opening the financial market to foreign investors and promoting Investor Relations best practices in line with the inclusion of the Saudi stock market in global indices. This is in continuation of the leading role played by the Capital Market Authority (CMA) and the Saudi Capital Market (Tadawul).

The Investor Relations function works to have a proactive communication with the financial community and build effective relationships with all stakeholders. It undertakes to open a dialogue between the Board and CEO on the investors' perceptions and expectations, as it provides several channels of communication including mail (at investor.relations@sa.zain.com) and telephone calls (at +966-59-244-8888), as well as attending local and international conferences.

In the event that the Investor Relations department receives any suggestions, remarks or inquiries from shareholders or investors relating to the Company and its performance, the Investor Relations updates the Board of Directors and the Executive Management on such suggestions, remarks or inquiries in order to take the necessary actions, if needed, that serve the best interests of the Company.

i. Substantial Shareholders

The following table includes information related to substantial shareholders and their respective shareholding details during 2019:

	Substantial Shareholder	As on January 1, 2019		As on December 31, 2019		Net change (Shares)	Change %
		No. of Shares	Ownership %	No. of Shares	Ownership %		
1	Mobile Telecommunication Company K.S.C.P	216,243,575	37.05%	216,243,575	37.05%	0	0
2	Faden Trading & Contracting Establishment	34,856,143	5.97%	34,856,143	5.97%	0	0
3	Saudi Plastic Factory	34,125,198	5.85%	34,125,198	5.85%	0	0

ii. Important Announcements

The following table includes the significant announcements the Company made during 2019:

#	Date	Announcement	Link
1	30-12-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) cancels the agreement with IHS Holding Limited to sell its physical infrastructure of towers in Saudi Arabia and lease it back.	Link
2	24-10-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) continues to record net profit for the fifth consecutive quarter with a net profit of SAR 121 Million in Q3 2019.	Link
3	19-08-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) enters into discussions with the Ministry of Finance with the aim to convert the whole or part of the outstanding debts due to the Ministry into shares in the Company, through partially underwriting of the proposed rights issues or any other means.	Link
4	14-07-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) continues to record net profit for the fourth consecutive quarter, with net profit of SAR 130 Million in Q2 2019.	Link
5	16-06-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) signs a new SAR 2.25 billion Islamic Murabaha Facility agreement to refinance its existing commercial loan with better terms.	Link
6	21-04-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) announces the results of the Ordinary General Assembly held on April 18, 2019 in which the General Assembly elected the Board of Directors and approved the formation of the Audit Committee for the new term.	Link
7	17-04-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) continues to record net profit for the third consecutive quarter with net profit of SAR 129 Million in Q1 2019.	Link
8	18-03-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) acquires 100 MHz of additional spectrum in the 3.5 GHz spectrum.	Link
9	13-02-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) reduces its accumulated losses to %30.84 of its capital.	Link
10	27-01-2019	Mobile Telecommunication Company Saudi Arabia (Zain KSA) records net profit of SAR 332 million for 2018 full year compared with net profit of SAR 12 million for 2017.	Link

iii. Shareholders Meetings

The table below includes the detailed record of Zain KSA's Board of Directors attendance to the General Assembly Meetings.

Ordinary General Assembly Meeting held on April 18, 2019 at 20:30 at Media Center of Tadawul, King Fahad Road, Taawuniya Towers (Northern Tower), Riyadh, SA.

#	Name	Attendance
1	HH Prince Nayef bin Sultan bin Mohammed bin Saud Alkabeer	✓
2	Bader Nasser Al Kharafi	×
3	Saud Abdullah Al Bawardi	✓
4	Hisham Mohammed Attar	✓
5	Abdulaziz bin Yaqoub AlNafisi	×
6	Ossama Michel Matta	×
7	Scott Gegenheimer	×
8	Martial Caratti	×
9	Raied bin Ali Al Seif	✓

During this meeting, the Ordinary General Assembly deliberated on the following agenda items and approved them by a great majority of the votes attended:

#	Name
1	Approve the Board of Directors report for the financial year ended 31/12/2018.
2	Approve the auditor's report for the financial year ended 31/12/2018.
3	Approve the financial statements for the financial year ended 31/12/2018.
4	Approve electing the members of the Board of Directors for the next term, beginning on 26/04/2019 for a period of three years ending on 25/04/2022. 1. HH Nayef bin Sultan bin Mohammed bin Saud Al-Kabeer 2. Bader Nasser Al Kharafi 3. Raied bin Ali Al Saif 4. Scott Gegenheimer 5. Saud bin Abdullah Al Bawardi 6. Ossama Michel Matta 7. Hisham bin Mohammed Mahmoud Attar 8. Martial Anthony Caratti 9. Firas Oggar
5	Approve the appointment of Grant Thornton (Aldar) as the external auditor for the Company among nominees, to review and audit the Company's quarterly financial statements for the second, third, and fourth quarters of the year 2019, the annual statement for 2019, and the quarterly financial statement for the first quarter of 2020 and determine their fees.
6	Approve the service contract between Zain KSA and Almarai Company where HH Prince Nayef bin Sultan bin Mohammed bin Saud Al Kabeer, Chairman of Zain KSA has an indirect interest as a member of Almarai Company's Board of Directors. The contract pertains to telecommunication services that reached a total value of SAR 2,718,295 during 2018. Also, authorize the contract for the coming year, according to prevailing market commercial terms, without preferred conditions.
7	Approve the service contract between Zain KSA and Archiving and Warehousing Storage Solutions Company, a subsidiary of Tejoury Company, where HH Prince Nayef bin Sultan bin Mohammed bin Saud Al Kabeer, Chairman of Zain KSA has an indirect interest as member of the Board of Directors of Tejoury. The service contract pertains to archiving and warehousing services that took place on 29/07/2015 and reached a total value of SAR 916,000 during 2018. Also, authorize it for the coming year.
8	Approve releasing the Board of Directors members from their liability for the financial year ending 31/12/2018.
9	Approve a total remuneration of SAR 3,675,000 for the members of the Board of Directors and its committees for the financial year ended 31/12/2018, each Board member shall receive an amount of SAR 375,000 and each committee member shall receive an amount of SAR 50,000.
10	Approve the Board of Directors decision for the appointment of Mr. Martial Anthony Caratti as a member of the Board of Directors (non-executive member) representing Al-Nahar Economic Consulting Company LLC, from 09/12/2018 until the end of the current session of the Board, replacing Mr. Thamer Ahmed Obeidat, (non-executive) Board member representing Al-Nahar Economic Consulting Company LLC.
11	Approve the formation of the Audit Committee for the new term beginning on 26/04/2019 for a period of three years ending on 25/04/2022 and approving its role, responsibilities, processes and the remuneration of its members. The Audit Committee comprises each of: • Mr. Raied Bin Ali Al Saif • Mr. Ossama Michel Matta • Mr. Martial Anthony Caratti

iv. Shareholders' Books

The Company requested a total of 12 shareholders' registers during the year 2019. Details of such requests are shown in the below table:

#	Date of request	Date of shareholder register	Purpose
1	07/01/2019	31/12/2018	Analysis and interaction with shareholders
2	04/02/2019	31/01/2019	
3	08/04/2019	28/02/2019	
4	08/04/2019	31/03/2019	
5	03/06/2019	30/05/2019	
6	11/06/2019	30/04/2019	
7	03/07/2019	30/06/2019	
8	31/07/2019	31/07/2019	
9	03/09/2019	31/08/2019	
10	06/10/2019	30/09/2019	
11	12/12/2019	31/10/2019	
12	12/12/2019	30/11/2019	

b. Board of Directors

The Board of Directors represents all shareholders and performs its duties of care and loyalty in managing Zain KSA's affairs. The Board undertakes all actions in the general interest of the Company and strives to develop it and maximize its value. In order to take on this sensitive role, the Board has the broadest powers in managing the Company and guiding its activities to achieve its strategic objectives.

i. Composition

During its meeting held on April 18, 2019, the Ordinary General Assembly of Zain KSA elected the Board of Directors for the next term which started on April 26, 2019 and shall end on April 25, 2022. The Board of Directors comprised the following members during 2019.

	Name	Membership Classification
1	HH Nayef bin Sultan bin Mohammed bin Saud Al-Kabeer (Chairman)	Independent
2	Bader Nasser Al Kharafi (Vice-chairman)	Non-executive
3	Raied bin Ali Al Saif	Independent
4	Scott Gegenheimer	Non-executive
5	Saud bin Abdullah Al Bawardi	Non-executive
6	Ossama Michel Matta	Non-executive
7	Hisham bin Mohammed Mahmoud Attar	Independent
8	Martial Anthony Caratti	Non-executive
9	Firas Oggar[1]	Non-executive
9*	Abdulaziz bin Yaqoub Al Nafisi[1]	Non-executive

ii. Meetings

The following table includes the details of the meetings held by the Board of Directors during 2019.

	Name	The Board of Directors held four (4) meetings during 2019				Total
		1st meeting February 14, 2019	2nd meeting April 18, 2019	3rd meeting September 15, 2019	4th meeting December 17, 2019	
1	HH Nayef bin Sultan bin Mohammed bin Saud Al-Kabeer	✓	✓	✓	✓	4
2	Bader Nasser Al Kharafi	✓	✓	✓	✓	4
3	Raied bin Ali Al Saif	✓	✓	✓	✓	4
4	Scott Gegenheimer	✓	✓	✓	✓	4
5	Saud bin Abdullah Al Bawardi	✓	✓	✓	✓	4
6	Ossama Michel Matta	✓	✓	✓	✓	4
7	Hisham bin Mohammed Mahmoud Attar	✓	✓	✓	✓	4
8	Martial Anthony Caratti	✓	✓	✓	✓	4
9	Firas Oggar[1]	NA	NA	✓	✓	2
9*	Abdulaziz bin Yaqoub Al Nafisi[1]	×	✓	NA	NA	1
The date of the last General Assembly meeting held was April 18, 2019						

[1] Mr. Firas Oggar was elected by the General Assembly on April 18, 2019 replacing Mr. Abdulaziz bin Yaqoub Al Nafisi as of April 26, 2019.

iii. Other Capacities of Board Members

The following table includes the companies inside and outside the Kingdom of Saudi Arabia in which a Board Member serves or served as Board Member or Senior Executive:

Name	Current Board Memberships / Executive Roles in other Companies	Previous Board Memberships / Executive Roles in other Companies
HH Prince Nayef bin Sultan bin Mohammed bin Saud Alkabeer	• Board Chairman at Al Marai (Joint Stock Company) • Board Member at Yamama Saudi Cement (Joint Stock Company) • Chairman of the Board of Directors at Arabian Shield Cooperative Insurance Company (Joint Stock Company) • Board Member at Farabi Petrochemicals Company • Board Member at Tarabot Investment & Development Company • Board Member at Ideal Factory for Sweets and Pastries Company • Board Member at Alnafoura Food Supply Company • Board Member at Alnafoura Fishery Company • Board Member at Alnafoura Catering • Chairman of the Board of Managers at Taste of Diplomats for Sweets Company • Chairman of the Board of Directors at Diplomat Factory for Sweets and Pastries • Chairman of the Board of Managers at Dar Alsulal Company • Member of the Board of Directors at Tejoury Company	• General Manager of Technical Projects & Contracting Co. • General Manager of Ashbal Al Arab Contracting Est
Raied bin Ali Al Seif	• Chairman of the Board at ANB Invest • Board Member at Ideal Factory for Sweets and Pastries Company • Board Member at Alnafoura Food Supply Company • Board Member at Arabian Shield Insurance Company (Joint Stock Company) • Board Member at Alnafoura Fishery Company • Board Member at Alnafoura Catering • Board Member at Managers at Taste of Diplomats for Sweets Company • Board Member at the Diplomat Factory for Sweets and Pastries • Board Member at Dar Alsulal Company • Head of Investment and Business Development at Office of HH Prince Sultan Bin Mohammed Bin Saud Al-Kabeer, Al Saud	• Vice Chairman of the Board of Jusoor Holding Company

Saud Abdullah Al Bawardi	• Board Member at National Gypsum Company (Joint Stock Company) • Board Member at Jiffin Alriyadh Company • Board Member at Excellent Foods Company • Board Member at Smart Parking Company • Chief Executive Officer at the United Commercial Company (Almuttahida)	• Chief Operating Officer at Mobile Telecommunication Company Saudi Arabia (Zain KSA) • Chief Commercial Officer at Mobile Telecommunication Company Saudi Arabia (Zain KSA)
Bader Nasser Al Kharafi	• Chairman of the Board at Gulf Cable & Electrical Industries Co. KSCP, Kuwait • Board Member at Foulath Holding B.S.C (c) Bahrain • Vice Chairman at Diamond International Motors, Egypt • Vice Chairman at Mobile Telecommunications Company, KSCP, Kuwait • Board Member at Zain Group Holding (Bahrain) • Board Member at Refreshment Trading Company, Kuwait • Board Member at Gulf Bank KSCP, Kuwait • Chairman Mobile Interim Co. 2 (MAC 2)"S.A.L"(Joint Stock Company) Lebanon • Board Member at Al-Khatem for Telecommunication • Board Member at Coutts & Co. England – Middle East Consultant Member • Board Member at Arabian Beverage Company • Chairman of the Board at Foo Holding (Joint Stock Company) Lebanon • Member of the Board of Managers of NEXGEN Advisory Group FZ-LLC • Member of the Board of Managers of Athir National "W.W.L" Bahrain. • Vice Chairman of Board of Managers Sudanese Mobile Telephone co. "Ltd" • Chief Executive Officer at M. A. Kharafi & Sons • General Manager at Mobile Telecommunication Company (Lebanon) • Managing Director at Al-Khatem for Telecommunication (Iraq) • General Manager at FOO Holding • Group Chief Executive Officer at Mobile Telecommunications Company, KSCP, Kuwait	• None
Scott Gegenheimer	• Board Member at Zain Charlotte • Member of the Board of Managers of NEXGEN Advisory Group FZ-LLC • Board Member at Zain UK Facilities Company • Board Member at Zain Dilmun Facilities Company • Board Member at Zain Victoria Facilities Company • Board Member at Zain Procurement Company • Board Member at Morpeth Limited Company • Board Member at FOO Off-shore Company • Board Member at FOO Company • Board Member at FOO Holding • Chief Executive Officer of Operations at Mobile Telecommunications Company, KSCP, Kuwait	• Chief Executive Officer at Mobile Telecommunications Company, KSCP, Kuwait

Ossama Matta	• Board Member at Zain Charlotte • Member of the Board of Managers of NEXGEN Advisory Group FZ-LLC • Board Member at Zain UK Facilities Company • Board Member at Zain Dilmun Facilities Company • Board Member at Zain Victoria Facilities Company • Board Member at Zain Procurement Company • Board Member at Morpeth Limited Company • Member of the Board of Managers Sudanese Mobile Telephone co. "Ltd" • Board Member at Zain Ajyal Company • Board Member at Wana Company • Chief Financial Officer at Mobile Telecommunications Company, KSCP, Kuwait	• None
Martial Caratti	• Member of the Board at Mobile Telecommunications Company, KSCP, Kuwait • Chief Financial Officer at Oman Telecommunications Company (Omantel)	• Chief Financial Officer at Ooredoo Tunisia Telecommunications Company
Hisham Attar	• Member of the Board at Saudi Industrial Investment Company (Dussur) • Chairman of the Board at Saudi Jordanian Investment Fund • Member of the Board at Alfarabi Medical Company • Member of the Board at Marketing and Trading Co. Ltd • Member of the Board of Managers of the Distinguished Academy for Sports Training • Member of the Executive Committee at the Saudi Arabian Military Industries (SAMI) • Senior Vice President at the Public Investment Fund	• Board Member at Industrialization & Energy Services Company (TAQA) • Senior Vice President of Government Investments Department at the Public Investment Fund • General Manager at Amwal Alkhaleej Investment Company
Firas Oggar[1]	• Head of Legal at Mobile Telecommunications Company, KSCP, Kuwait	• Head of Legal at Foulath Holding B.S.C (c) Bahrain • Head of Legal at Al Ghurair Group
Abdulaziz bin Yaqoub Al Nafisi[1]	• Vice-chairman of the Board at Kuwait Finance House • Chief Executive Officer at AlNafisi National Company	• Member of the Board at Mobile Telecommunications Company, KSCP, Kuwait

[1] Mr. Firas Oggar was elected by the General Assembly on April 18, 2019 replacing Mr. Abdulaziz bin Yaqoub AlNafisi as of April 26, 2019.

c. Board Committees

Board Committees play a pivotal role in enabling the Board to effectively perform its duties. Each Committee is responsible before the Board for its activities without prejudice to the Board's overall responsibility of the Company's affairs. Accordingly and in line with Article (101) of the Companies Law, and Articles (50) and (54) of the Corporate Governance Regulations of CMA, the Audit Committee and Nomination and Remuneration Committee have been formed to undertake their respective roles and competences under the applicable laws and regulations.
The following sections include a brief description of their competencies and information related to their composition and activities.

i. Audit Committee

The Audit Committee is composed of three members who were reappointed by the General Assembly of Zain KSA on its meeting held on April 18, 2019 for a three-year term which started on April 26, 2019 and will end on April 25, 2022.
The Audit Committee in 2019 oversaw the efficiency and effectiveness of internal control at Zain KSA. To asses that, a number of meetings were held during 2019 with the Internal Audit General Manager, Senior Management and External Auditor. This section briefly introduces the Committee's roles and responsibilities, composition, and the meetings conducted.
The Committee's roles and responsibilities include its statutory duties as per the CMA Corporate Governance Regulations, the Companies Law as well as the responsibilities assigned to it by the Board of Directors which were carried by the Committee through meetings and discussions with the Executive Management, the Internal Audit team and the External Auditor. The main responsibilities of the Audit Committee are outlined as follows:

- Assist the Board of Directors in its evaluation of the adequacy and efficiency of the internal and financial control systems, accounting practices, information systems, and auditing processes applied within Zain KSA.
- Review and monitor the Company's management, Internal Auditors, External Auditors and the Company's finance policies to reasonably ensure the adequacy of accounting principles and financial practices applied.
- Review and discuss the accounting policies adopted, any changes in accounting policies, and submit recommendations and views to the Board of Directors.
- Review and analyze the interim and annual financial statements prior to their presentation to the Board of Directors, and provide its opinion and recommendations thereon to ensure their integrity, fairness and transparency.
- Nominate and recommend the appointment and remuneration of External Auditors, and monitor their effectiveness and independence.
- Supervise and monitor the Company's Internal Audit department and verify its effectiveness in performing the duties and tasks assigned to it.
- Review the effectiveness of the system for monitoring compliance with applicable laws and regulations including governance regulations, the results of management's investigation and any instances of non-compliance.
- Approve the Internal Audit charter as well as Internal Audit policies and procedures.
- Meet the Internal Audit General Manager individually and periodically to discuss any matters that the Audit Committee or the Internal Audit General Manager may consider necessary.

The following table includes the composition and meetings of the Audit Committee as well as the attendance record throughout the year 2019:

#	Name	Capacity	The Committee held four (4) meetings during 2019				Total
			1st meeting January 24, 2019	2nd meeting March 6, 2019	3rd meeting April 16, 2019	4th meeting October 23, 2019	
1	Mr. Raied Bin Ali Al Saif	Chairman	✓	✓	✓	✓	4
2	Mr. Ossama Michel Matta	Member	✓	✓	✓	✓	4
3	Mr. Martial Anthony Caratti	Member	✓	✓	✓	✓	4

ii. Nomination and Remuneration Committee

The Nomination and Remuneration Committee is composed of three members who were appointed by the Board of Directors. The Nomination and Remuneration Committee plays a significant role in assisting the Board of Directors to meet the regulatory requirements relating to sensitive matters such as the nomination, remunerations and performance review of the Board of Directors and Executive Management.

The main responsibilities of the Nomination and Remuneration Committee include, but are not limited to, the following:

- Recommend clear policies and standards for the membership in the Board of Directors and assist the Board in the implementation thereof.
- Recommend to the Board of Directors the appointments in key executive positions.
- Ensure independence of the independent Board members and the absence of any conflicts of interest if a Board member also acts as a member of the Board of directors of another company.
- Draw clear policies regarding the remuneration of Board members, Committees members and senior executives, and provide recommendations thereon.
- Perform an annual review of the requirement of suitable skills for membership of the Board and for the appointment of senior executives, including an annual performance review of Board and Committees.

The following table includes the composition and meetings of the Nomination and Remuneration Committee as well as the attendance record throughout the year 2019:

#	Name	Capacity	The Committee held three (3) meetings during 2019			Total
			1st meeting February 5, 2019	2nd meeting March 14, 2019	3rd meeting September 2, 2019	
1	Mr. Scott Gegenheimer	Chairman	✓	✓	✓	3
2	Mr. Raied Bin Ali Al Saif	Member	✓	✓	✓	3
3	Mr. Ossama Michel Matta	Member	✓	✓	✓	3

d. Interest in Shares and Debt Instruments

i. Board of Directors:

The following table includes all available details about interest, contractual securities or rights issue of the Board members and their relatives in the Company's shares during 2019:

#	Name	Shares owned		Net Change	% Change
		January 1, 2019	December 31, 2019		
1	HH Nayef bin Sultan bin Mohammed bin Saud Al-Kabeer	1,000	1,000	0	-
2	Bader Nasser Al Kharafi	1,540	1,540	0	-
3	Raied bin Ali Al Saif	71,283	113,033	41,750	63%
4	Saud bin Abdullah Al Bawardi	1,000	1,000	0	-
5	Hisham bin Mohammed Attar	986	986	0	-

None of the Board members and their relatives have any interest in the Company's debt instruments during 2019.

ii. Executive Management:

The following table includes all available details about interest, contractual securities or rights issue of the executive management members and their relatives in the Company's shares during 2019.

#	Name	Shares owned		Net Change	% Change
		January 1, 2019	December 31, 2019		
1	Saad A. Al-Sadhan	15	15	0	-
2	Rayan Abdullah AlTurki	15	15	0	-
3	Abdulaziz AlToaimi	61	61	0	-

None of the executive management members and their relatives have any interest in the Company's debt instruments during 2019.

e. Remuneration and Compensation

i. Remuneration Policy

As per Article 61 (1) of the Corporate Governance Regulations of the Capital Market Authority ("CMA"), the Nomination and Remuneration Committee developed the Remuneration Policy of Zain KSA which governs the remunerations of Board members, Committees members and members of the Executive Management. This Policy was approved by the Board of Directors on December 5, 2017 and recommended to the General Assembly which approved it on December 12, 2017.

The Remuneration Policy aims at governing the remuneration practices of Zain KSA with respect to the remunerations of members of the Board of Directors, Board Committees and Executive Management in line with the applicable laws and regulations. In addition to other objectives, the Remuneration Policy intends to align the remunerations with Zain KSA's strategy and objectives, and make them consistent with the magnitude, nature and level of risks faced by the Company and takes into consideration other regional and global telecoms, ICT and TASI companies, considering their size and operations in relevance to Zain KSA.

The Policy states that members shall be entitled to a fixed amount (basic remuneration) which shall be approved by the General Assembly. Board members are also entitled to variable remuneration tied to the distribution of dividends (if any) in line with Article 76 of the Companies Law. Members of the Board and Board Committees shall be reimbursed for certain expenses, such as travel and accommodation, which are associated with the attendance of Board and Committees meetings.

In all cases, the total amount of remuneration for each Board member shall not exceed SAR 500,000 of financial or in-kind benefits annually in line with Article 76 of the Companies Law.

In line with the provisions of the Policy, it was recommended that each Board member is entitled to an amount of SAR 375,000 and each Committee member is entitled to SAR 50,000 subject to the approval of the General Assembly.

In respect of executive management, the Policy aims at attracting and retaining the best talents as executives are offered packages consisting of basic salary, allowances, variable components, performance-based bonus and end-of-service benefits. These benefits are based on many factors including experience, expertise, qualifications and others, and all benefits are subject to the approved policies and approval of the competent level of authority.

You may access the Remuneration Policy here.

In line with Articles 90 and 93 of the Corporate Governance Regulations, remunerations are disclosed in the following two sections as required without prejudice to resolution of the Capital Market Authority Board No. 1-35-2018 dated March 26, 2018. It is worth mentioning that there is no significant deviation between the remunerations granted and the approved Policy.

The General Assembly of the Company approved, on its meeting held on April 18, 2019, the disbursement of SAR 3,675,000 in total as remunerations to the Board of Directors and the Board Committees for the financial year that ended on December 31, 2018. There is no arrangement or agreement under which a Board Member or a Senior Executive waived any remuneration. Details of remunerations are outlined in the following sub-sections.

ii. Board Remuneration (all figures in SAR)

Board members	Fixed remuneration						Variable remuneration						End of Service Gratuity	Grand Total	Expense Allowance
	Base amount	Attendance allowance for meetings of the Board of Directors First: Independent members	Total attendance allowance for committee meetings	In-kind benefits	Fiscal, administrative and advisory work	Total	Percentage of profits	Periodic Remunerations	Short - term incentive plans	Long - term incentive plans	Shares Given (Value Added)	Total			
First: Independent members															
HH Prince Nayef bin Sultan bin Mohammed bin Saud Al-Kabeer	375,000					375,000								375,000	
Raied bin Ali Al Saif	375,000					375,000								375,000	
Hisham Mohamed Mahmoud Attar	375,000					375,000								375,000	
Total	1,125,000					1,125,000								1,125,000	
Second: Non-executive members															
Bader Nasser Al Kharafi	375,000					375,000								375,000	
Scott Gegenheimer	375,000					375,000								375,000	
Ossama Michel Matta	375,000					375,000								375,000	
Tamer Ahmed Obeidat[1]	281,250					281,250								281,250	
Abdulaziz bin Yaqoub Al Nafisi	375,000					375,000								375,000	
Saud bin Abdullah Al Bawardi	375,000					375,000								375,000	
Martial Anthony Caratti[1]	93,750					93,750								93,750	
Firas Oggar[2]	NA					NA								NA	
Total	2,250,000					2,250,000								2,250,000	

iii. Board Committees Remuneration (all figures in SAR)

	Committee members	Fixed remuneration	Attendance Allowance for meetings	Total
Members of the Audit Committee				
1	Raied bin Ali Al Saif	50,000	-	50,000
2	Ossama Michel Matta	50,000	-	50,000
3	Tamer Ahmed Obeidat	50,000	-	50,000
4	Martial Anthony Caratti[3]	0		0
	Total	150,000	-	150,000
Members of the Remuneration and Nominations Committee				
1	Scott Gegenheimer	50,000	-	50,000
2	Ossama Michel Matta[4]	12,500	-	12,500
3	Raied bin Ali Al Saif	50,000	-	50,000
4	Tamer Ahmed Obeidat[4]	37,500	-	37,500
	Total	150,000	-	150,000

[1] Mr. Martial Anthony Caratti was appointed on December 9, 2018, and his appointment was approved by the General Assembly on April 18, 2019. Mr. Caratti replaced Mr. Tamer Ahmed Obeidat whose resignation was approved by the Board on December 9, 2018. Mr. Caratti's eligibility for this remuneration (25% of SAR 375,000) is based on his attendance of 1 out of 4 meetings the Board held during 2018, whereas Mr. Obeidat's membership was effective during 3 meetings which entitled him to this remuneration (75% of SAR 375,000).

[2] Mr. Firas Oggar was elected by the General Assembly on April 18, 2019 to act as part of the Board term which started on April 26, 2019.

[3] Mr. Martial Anthony Caratti was appointed on December 9, 2018, and his appointment was approved by the General Assembly on April 18, 2019.

[4] Mr. Ossama Michel Matta was appointed in the Nomination and Remuneration Committee following the resignation of Mr. Tamer Ahmed Obeidat on December 9, 2018. Mr. Matta's eligibility for this remuneration (25% of SAR 50,000) is based on his attendance of 1 out of 4 meetings the Committee held during 2018, whereas Mr. Obeidat attended 3 meetings which entitled him to this remuneration (75% of SAR 50,000).

iv. Executive Management Remuneration (all figures in SAR)

In compliance with Article 93 of the Corporate Governance Regulations of the Capital Market Authority, the following table includes details relating to remunerations of five executives who received the highest remuneration from Zain KSA including the CEO and CFO disclosed collectively in line with the resolution of the Capital Market Authority Board No. 1-35-2018 dated March 26, 2018:

Five Senior Executives including CEO and CFO (All amounts are in Saudi Riyals)	Fixed Remunerations				Fixed Remunerations						End-of-service Award	Aggregate Amount
	Salaries	Allowances	In-kind benefits	Total	Periodic remunerations	Profits	Short-term incentive plans	Long-term incentive plans	Granted shares (insert the value)	Total		
Total	6,863,670	1,628,874	-	8,492,544	8,338,202	-	-	-	-	8,338,202	-	16,830,746

f. Related Party Transactions

The following table includes amounts due to related parties:

	2019 SAR'000	2018 SAR'000	Note
Mobile Telecommunications Company K.S.C	1,356,121	1,140,618	This amount relates to accrued management fees and is payable to the Company's largest shareholder. The amount is unsecured, interest free and does not have any fixed terms of repayment but is not repayable until certain conditions are met in the Syndicated Murabaha facility.
Mobile Telecommunications Company K.S.C	4,856,420	5,277,458	These amounts are payable to shareholders and bear interest at market rates. The amounts are unsecured and cannot be repaid until certain conditions are met in the Syndicated Murabaha facility. These amounts include accrued financial charges of SAR 1,413 million (2018: SAR 1,838 million).
Infra Capital Investments	32,256	31,661	
Founding shareholders	130,861	134,888	This amount relates to accrued finance charges and is payable to the Company's founding shareholders. The amount is unsecured, bears interest at market rates and does not have any fixed terms of repayment but is not repayable until certain conditions are met in the Syndicated Murabaha facility.
Other related parties	105	78	Telecom Services
Total	**6,375,763**	**6,584,703**	

The following tables include details relating to the transactions between Zain KSA and related parties during 2019:

Description	2019 SAR'000
Revenues from companies related to Zain Group[1]	19,415
Purchases from companies related to Zain Group[1]	78,301
Management and Branding Fees charged by MTC KSCP	215,504
Finance charges charged by MTC KSCP	323,893

#	Related Party	Nature and conditions of transaction, business or contract	Duration / Term	Net Value / amount during 2019 SAR'000	Related party relationship with Zain KSA	Interested Board members / Senior executives (directly or indirectly)
1	MTC KSCP	Operational	Open	9,092	Founding Shareholder of Zain KSA	- Mr. Bader Nasser Al Kharafi (Vice-chairman) - Mr. Scott Gegenheimer (Board Member) - Mr. Ossama Matta (Board Member) - Mr. Martial Caratti (Board Member) - Mr. Firas Oggar (Board Member)
2	MTC KSCP / Zain Kuwait	Telecom Services	Open	(105)	Founding Shareholder of Zain KSA	
3	Oman Tel, Zain Bahrain, Zain Jordon, MTC Lebanon S.A.R.L., Zain Kuwait, Zain Sudan, Zain Iraq "IRQAT" and Zain Global Communications Co.	Telecom Services (Interconnect/ roaming)	Open	(58,886)	Oman Tel is a shareholder in MTC KSCP whereas Zain Bahrain, Zain Jordon, MTC Lebanon S.A.R.L., Zain Kuwait, Zain Sudan, Zain Iraq "IRQAT" and Zain Global Communications Co. are subsidiaries to MTC KSCP which is a Founding Shareholder of Zain KSA	
4	Zain Global Communications Co. SPC	Telecom Services	Open	3,916	Zain Global Communications Co. SPC is a subsidiary to MTC KSCP which is a Founding Shareholder of Zain KSA	
5	Arabian Shield Cooperative Insurance Company	Insurance Services	Open	532	Arabian Shield Cooperative Insurance Company is chaired by HH Nayef bin Sultan bin Mohammed bin Saud Al Kabeer, and Mr. Raied Alsaif serves as member of its Board	- HH Nayef bin Sultan bin Mohammed bin Saud Al Kabeer (Chairman) - Mr. Raied bin Ali Al Saif (Board Member)
6	Al Marai Company	Telecom services	Open	2,886	HH Nayef bin Sultan bin Mohammed bin Saud Al Kabeer serves as Chairman of Al Marai Company's Board of Directors	- HH Nayef bin Sultan bin Mohammed bin Saud Al Kabeer (Chairman)
7	Archiving and Warehousing Storage Solutions Company	Archiving Services	Open	917	HH Nayef bin Sultan bin Mohammed bin Saud Al Kabeer serves as a Board Member in Tejoury Company which owns the Archiving and Warehousing Storage Solutions Company	HH Nayef bin Sultan bin Mohammed bin Saud Al Kabeer (Chairman)
8	Yamama Cement Company	Telecom services	Open	539	HH Nayef bin Sultan bin Mohammed bin Saud Al Kabeer serves as a Board Member in Yamama Cement Company	HH Nayef bin Sultan bin Mohammed bin Saud Al Kabeer (Chairman)

[1]Details of such transactions are outlined in item No. 3 of the following table.

g. Dividends Distribution

Based on the Company's Bylaws approved by the Extraordinary General Assembly on April 13, 2017 and Shareholders Rights Policy approved by the Board of Directors on December 5, 2017, the Company's Dividends Distribution Policy is as follows:

The Company's annual net profit shall be distributed after deducting all general expenses and other costs as follows:

1. 10% of the net profits shall be set aside to form a statutory reserve. The Ordinary General Assembly may decide to discontinue setting aside such percentage when the said reserve reaches 30% of the paid-up share capital.
2. The Ordinary General Assembly may, upon recommendation from the Board of Directors, set aside a percentage that does not exceed 20% of the annual net profits to form a provisional reserve allocated for one or several purposes.
3. The Ordinary General Assembly may decide, based on the proposal of the Board of Directors, to distribute an initial dividend to shareholders from the remaining amount. The dividend to be distributed shall not be less than 5% of the Company's paid up share capital.
4. Subject to the provisions stipulated in the Company's Bylaws and the Companies Law, the General Assembly may, after the above, allocate no more than 5% of the remainder as a remuneration to members of the Board of Directors, provided that the remuneration is proportionate with the number of meetings attended by each member.
5. The Ordinary General Assembly may decide, based on the proposal of the Board of Directors, to distribute the remainder to shareholders as an additional dividend.

The Company may distribute interim dividends to shareholders, on a semi-annual or quarterly basis, in accordance with the regulations set by the Capital Market Authority, based on an authorization issued by the Ordinary General Assembly to the Board of Directors to distribute such dividends.

The shareholders' entitlement to the dividends shall be subject to the General Assembly's resolution - or the Board's resolution for interim dividends - issued in this regard. The resolution shall specify the eligibility date and distribution date. Shareholders who are registered in the shareholders' register at the end of the eligibility day shall be entitled to dividends.

As for the distribution of dividends for preferred shares, if no dividends were distributed for any fiscal year, dividends for subsequent years may not be distributed except upon payment of the prescribed percentage, as stated in Article 114 of the Companies Law, to holders of preferred shares.

If the Company fails to pay the percentage stipulated in Article (114) of the Companies Law of the profits for three (3) consecutive years, the Special Assembly of holders of such shares, held in accordance with the provisions of Article (89) of the Companies Law, may decide either to attend the Company's general assembly meetings and participate in the voting, or appoint representatives in the Company's Board of Directors in proportion to their shares of the capital, until profits designated for preferred shares are fully paid by the Company to the holders of such shares for previous years.

It is worth mentioning that no dividends were distributed to shareholders during the fiscal year or proposed for distribution at the end of the fiscal year, and there are no arrangements or agreements under which a shareholder waived any rights to dividends.

h. Internal Control

The internal control system has an important role to play in the success of any organization. Zain KSA is committed to ensuring an effective internal control system to achieve regulatory objectives, asset protection, accurate internal and external reporting, risk reduction and adherence to regulatory requirements.

The Audit Committee oversees the Internal Audit work, which periodically reviews the adequacy and effectiveness of the internal control system, to provide a continuous assessment of the internal control system and its effectiveness. The Audit Committee also reviews the External Auditor's reports and management letter, which might include any lack of internal control noted by the External Auditor as part of his internal controls assessment.

Based on the above, the Audit Committee believes that the internal control system within the Company is appropriately designed and effectively serves organizational objectives, operational efficiency, financial reporting reliability and regulatory compliance without any material deficiency or material weakness.

i. External Auditor

The Audit Committee evaluated the proposals of External Auditors and provided recommendations to the Board of Directors to nominate an External Auditor for the Company. After evaluation of all proposals with consideration of experience and qualifications, Grand Thornton (Aldar audit) Abdullah Al Basri & Co and Deloitte & Touche Bakr Abulkhair & Co were recommended on March 21, 2019 to the Board to present this recommendation to Annual General Assembly to select one of them as an external auditor.

The General Assembly held on April 18, 2019 selected Grand Thornton (Aldar audit) Abdullah Al Basri & Co to be the External Auditor to review and audit the Company's quarterly financial statements for the second, third, and fourth quarters of 2019, the annual statement of the year 2019, and the first quarter of the 2020.

j. Corporate Governance Compliance

Zain KSA adopts a Corporate Governance framework that was developed based on the Companies Law as well as the Corporate Governance Regulations and other relevant implementing regulations of the Capital Market Authority (CMA) in addition to the local and international best practices. This framework is being implemented by multiple stakeholders within Zain KSA and a dedicated Corporate Governance department is regularly enhancing the framework and monitoring compliance therewith.

As part of Zain KSA's obligation to implement the Corporate Governance Regulations of CMA, Zain KSA confirms its implementation of all articles within the regulations with the exception of the following articles:

Mandatory Articles			
#	Article No.	Article	Justification
1	Article 51 - Paragraph (b)	**Committees Membership** b) The Company shall take into consideration while forming the remuneration and nomination committees that their members are of Independent Directors. The Board may appoint Non-Executive Directors or persons other than Board members either from shareholders or others, provided that the chairmen of committees mentioned in this paragraph are of the Independent Directors.	Due to the sensitivity of the role of the chairman of NRC and the knowledge, skills, experience and autonomy required for this role, the Board was unable to appoint an independent member during the year 2019 and will continue searching for a qualified candidate during 2020.
2	Article 90 (19)	**The Board's Report** The Board's report shall include the Board's operations during the last fiscal year and all factors that affect the company's businesses, such report shall include the following: 19) Geographical analysis of the company's and its affiliates'revenues.	Geographic analysis of the Company's total revenues is not available due to the nature of the Telecoms Sector as the revenue generated by subscriber is not linked to a certain location or area.

Guiding Articles			
3	Article 39	**Training** The Company shall pay adequate attention to the training and preparation of the Board members and the Executive Management, and shall develop the necessary programs required.	This article was implemented in terms of members of the Executive Management. In respect of Board members, the Board of Directors did not see the necessity of training and preparing its members in view of their capabilities and expertise.
4	Article 41	**The Assessments** a) The Board shall develop, based on the proposal of the nomination committee, the necessary mechanisms to annually assess the performance of the Board, its members and committees and the Executive Management using key performance indicators linked to the extent to which the strategic objectives of the Company have been achieved, the quality of the risk management and the efficiency of the internal control systems, among others, provided that weaknesses and strengths shall be identified and a solution shall be proposed for the same in the best interests of the Company. b) The procedures of performance assessment shall be in writing and clearly stated and disclosed to the Board members and parties concerned with the assessment. c) The performance assessment shall entail an assessment of the skills and experiences of the Board, identification of the weaknesses and strengths of the Board and shall attempt to resolve such weaknesses using the available methods, such as nominating competent professional staff able to improve the performance of the Board. The performance assessment shall also en-tail the assessment of the mechanisms of the Board's activities in general. d) The individual assessment of the Board members shall take into account the extent of effective participation of the member and his/her commitment to performing his/her duties and responsibilities, including attending the Board and its committees meetings and dedicating adequate time thereof. e) The Board shall carry out the necessary arrangements to obtain an assessment of its performance from a competent third party every three years. f) Non Executive Directors shall carry out a periodic assessment of the performance of the chairman of the Board after getting the opinions of the Executive Directors, without the presence of the chairman of the Board in the discussion on this matter, provided that weaknesses and strengths shall be identified and a solution shall be proposed for the same in the best interests of the Company.	This article was not implemented in 2019 with respect to the assessment of the Board, Committees and Board members' performance. However, it is planned to have the necessary mechanisms in place in 2020 to ensure compliance with the Article.

5	Article 70 and subsequent articles 71 and 72	**Composition of the Risk Management Committee** The Company's Board shall, by resolution therefrom, form a committee to be named the "risk management committee". Chairman and majority of its members shall be Non-Executive Directors. The members of that committee shall possess an adequate level of knowledge in risk management and finance.	The Board of Directors did not establish a Risk Management Committee during 2019 as there was no need to form a dedicated committee for that purpose.
6	Article 85 – Paragraphs (2) and (3)	**Employee Incentives** The Company shall establish programs for developing and encouraging the participation and performance of the Company's employees. The programs shall particularly include the following: 2) establishing a scheme for granting Company shares or a percentage of the Company profits and pension programs for employees, and setting up an independent fund for such program. 3) establishing social organizations for the benefit of the Company's employees.	These two items were not implemented in 2019 as there was no need to establish such schemes, programs and social organizations.
7	Article 87	**Social Responsibility** The Ordinary General Assembly, based on the Board recommendation, shall establish a policy that guarantees a balance between its objectives and those of the community for purposes of developing the social and economic conditions of the community.	As outlined in the Corporate Sustainability section, Zain KSA participated in various activities during the year under the supervision of the executive management. This article will be implemented in the future.
8	Article 88	**Social Initiatives** The Board shall establish programs and determine the necessary methods for proposing social initiatives by the Company.	Currently the executive management undertakes this responsibility and this article will be implemented in the future.
9	Article 93 - Paragraph 4) a – b	**Disclosure of Remunerations** 4) The Board shall: a) disclose a description of the necessary details with respect to the remunerations and compensations granted to each of the following, separately. b) five Senior Executives who have received the highest remuneration from the Company, provided that the chief executive officer and chief financial officer are among them.	The remunerations of executives in 2019 were disclosed collectively in line with CMA Board's Resolution No. 1-35-2018 dated 9/7/1439H Corresponding to 26/3/2018G.
10	Article 95	**Formation of a Corporate Governance Committee** If the Board forms a corporate governance committee, it shall assign to it the competences stipulated in Article (94) of CMA CG Regulations. Such committee shall oversee any matters relating to the implementation of governance, and shall provide the Board with its reports and recommendations at least annually.	The Board of Directors did not establish a Corporate Governance Committee during the year as there was no need to establish a dedicated committee to perform the competences outlined in Article (94) of the regulations. However, the Corporate Governance Department is undertaking such responsibilities.

5. Corporate Sustainability

Since inception, Corporate Sustainability has been a key driver within the organization. For Zain KSA, the Corporate Sustainability agenda is rooted on the belief that contributing to the socio-economic development of the Kingdom creates value for all.

Grounded on Saudi Arabia's 2030 Vision goals and the United Nations Sustainable Development Goals (SDGs), Zain KSA's pillars are set to address socio-economic developmental challenges and seize the opportunities to create inclusive value. The company's Corporate Sustainability focus areas are based on: ensuring the sustainability of the business, maintain the wellbeing of its employees, supporting the development of the community and addressing climate change.

• Addressing Goal 3 – Good Health and Well-being

For the community and the company to thrive, having good health and well-being is of material importance. Through concerted efforts, the company conducted initiatives, activities and campaigns that focus in placing much needed awareness.

1. Zain Sponsored the International Day of People with Disabilities in collaboration with the Association of People with Disabilities. The event falls under the theme "Accessible Future" which was held in King Saud University. The sponsorship was supported with a social media campaign leveraging on the company's reach and following.
2. During the month of October, Zain KSA partnered with Zahra Association to raise awareness on Breast Cancer and also conducted awareness sessions to all Zain employees.
3. In Saudi Arabia 17.9%[1] of the adult population have diabetes, accordingly on World Diabetes Day, Zain conducted free checkups and awareness sessions to all of its employees and developed a social media campaign to raise awareness on the importance of prevention.
4. For the third year in a row, Zainers participated in the Movember marathon to raise awareness on the importance of prostate cancer prevention. This initiative was also supported with a social media campaign.
5. Since 2011, the company continues with its blood donation drive in collaboration with different government entities to address the lack of blood supply in blood banks.
6. On World Health Day, Zain KSA provided its employees with healthy snack for a full week, to encourage employees to adopt a healthier lifestyle and maintain a better health.

• Addressing Goal 4 – Quality Education

The company recognizes the importance and the pivotal role that education plays in the development of society. The below is a list of the initiatives that aim to support the education ecosystem in the country.

1. Zain In partnership with Nokia, Zain Saudi Arabia provided a internship program designed to give graduated students the opportunity to enhance and develop their skills to better prepare them for the labor market. Before joining the program, the company conducted a rigorous selection process and assessed the applications to ensure candidates met the program criteria. The eight-week program provided the interns with a wide-range of skills from soft skills such as teamwork and problem solving to capabilities that focus on programming and data science. In 2019, the company selected a total of 9 interns.
2. The Telecom Cyber Pioneers program held in cooperation with Saudi Digital Academy (An initiative by MCIT) aims to build the national digital capabilities of the country in order to meet the needs of the digital transformation of the Kingdom.
3. The COOP internship training in collaboration with universities aims to provide university students training opportunities in different function throughout the organization to better prepare them for the workforce. In 2019, the company selected a total of 38 students.

[1] https://www.arabnews.com/node/1481756/saudi-arabia

• Addressing Goal 5 – Gender equality

The company recognizes that in order to tip the needle and create meaningful change, a holistic approach must be taken when it comes to addressing gender equality. The initiatives below provide a brief description of the efforts undertaken by Zain.

1. WE Together Initiative aims to encourage diversity and equality in the workplace through four pillars: HR Policy Transformation, Female Leadership Development, Female Recruitment, and Culture Transformation. In 2019, the company achieved a significant increase in female leadership participation by 200% resulting with females representing 25% of the management team.
2. Zain KSA sponsored "A Step Ahead" career fair, which is the number one female career and recruitment fair endorsed by The Ministry of Labor and the Human Resources Development Fund. It is a Saudi-centric, three-day program designed to empower women with all educational backgrounds and experiences. The program effectively aids women in becoming active agents in today's booming workforce by enriching their job-hunting opportunities and endorsing their personal and professional skills. This conference welcomed 29,713 attendees.

• Addressing Goal 10 – Reduced inequality

In 2019, the company launched the WE ABLE Initiative with the aim to recruit and empower people with disabilities. The initiative is in alignment with Vision 2030.

• Addressing Goal 11 – Sustainable cities and communities

In 2019, Zain Saudi Arabia launched the Zain Volunteering Program aligned to the country's Vision 2030 goal to reach one million volunteers annually. The program, organized in collaboration with Bunyan Charity and Prince Sultan Medical City, aimed to provide employees with opportunities to volunteer and contribute to the betterment of society. During the year, employees volunteered in programs during Ramadan where they helped prepare and distribute Iftar meals to people in need. Similarly, during the Eid Celebrations the company supported children and injured soldiers from the Southern Borders. Throughout 2019, 72 employees joined the Zain Saudi Arabia Volunteer Program.

• Addressing Goal 17 – Partnerships to achieve the goal

In an effort to further support the initiatives and activities stated above, the company supported various charities and association to raise awareness on their contributions to society. Part of the support entails launching four SMS campaigns to collect donations throughout the year.

6. Risk Management

The Board of Directors of Zain KSA has adopted a framework and a policy for managing the Company's risks. The framework is in accordance with the Corporate Governance Regulations issued by the Capital Market Authority and in line with the leading practices in this field.
Zain KSA is committed to the formal, systematic and structured management of risks across the organization. Furthermore, Zain KSA benefits from the support of Zain Group to identify the top strategic risks on annual basis, and leverage the knowledge of the Group in mitigating such risks as well as developing KRIs (Key Risk Indicators) to monitor the progress of the risk mitigation and risk trends across the identified risks with Zain KSA Management.

Risk is intrinsic in all aspects of Zain KSA's business and activities due to the nature of any business and the dynamic work here. Therefore, it is important for risks to be identified and controlled. That will support in making informed business decisions and in pursuing new opportunities.
The Enterprise Risk Management methodology has been benchmarked with leading global risk management standards and guidance available such as Committee of Sponsoring Organization (COSO) framework and ISO 31000:2018-02. It has been designed to provide simplicity and practicality required for implementing an enterprise-wide process.
Zain KSA Enterprise Risk Management process is part of every decision-making and monitoring process. In this regard, specific roles and responsibilities, tools, enablers and guidance have been developed and been made available for reference. Risks will be systematically assessed, mitigated and monitored thus embedding the desired risk management culture in undertaking business activities.
The following section includes the risks facing the company and details about the company's policy to manage and mitigate such risks:

Strategic Risk(s):

Deviation in implementation of strategy
The strategy is based on key pillars that include driving growth in market share, digital value proposition, and B2B dealings. Thus, failure to effectively implement business strategy may result in opportunity loss, brand erosion, increased costs, degrading of services, and non-adherence to service level. This risk is mitigated through establishing a centralized PMO to monitor strategic initiatives, alongside a balanced scorecard for chief executives to align with strategic objectives.

Adapting to changing regulatory frameworks
As Governments race to drive the digital society worldwide, with fiber and 5G infrastructure at the forefront of their thinking and since telecommunications is increasingly becoming an enabler of digital transformation across a number of industry verticals, insufficient engagement with industry verticals, regulatory forums and other public sector regulators may result in delays in launching new cross-industry solutions, and regulatory non-compliances. Therefore, and to mitigate this risk, the company is proactively engaging with cross-sector industry ecosystems to help unlock new use cases and business models. Also, the company is working to develop a greater understanding of industry-specific transformation and regulatory compliances requirements and operate based on this understanding.

Financial Risk(s):

Increasing Capex Burden
Operators worldwide are contending with a new wave of capex as a result of the 5G rollout and the focus on full-fiber connectivity which will also stimulate a new wave of fiber investments. Also, IoT-centric 5G use cases are in their infancy and require a more localized approach to network planning, while the perception of broadband as a utility may undermine the premium pricing of fiber. The company is containing any additional 5G capex within the company envelop through smart investment. Moreover, capex projects are self-funded from the Company's operating cash flow and any excess cash generated through the operation or its working capital will cater for any increase in debt or shareholders liability. With respect to lower profitability, the related return on investment kick-in after a number of years.

High Leverage
Increased debt over the years results in higher financing costs which leads to a decrease in profits and decrease in the financing activities of the cash flow. The Company is mitigating this risk by increasing EBIDTA margins through growth in revenue through B2B / Digital offerings, alongside cost optimization, Smart Capex investments as well as the proposed capital restructure which includes injecting SAR 4.5 Billion to deleverage the company.

Compliance Risk(s):

Compliance to regulations

Regulatory maturity, as defined by the ITU, remains inconsistent worldwide, amidst a rising focus on telecommunications as a national strategic asset which could prompt further evolution of regulatory approaches. Noncompliance with regulatory requirements (issued by CMA, CITC, MCIT etc.) may expose the company to the risk of penalties, or a rating downgrade which would result in higher volatility and weigh down on share price and high cost of capital. The company has adopted mitigation plans and controls to enhance the governance and compliance through the implementation and monitoring of a comprehensive compliance checklist and the creation of a functional and escalation matrix for compliance monitoring.

Operational Risk(s):

Information Security & Cyber Risks

Information Security & Cyber Risks are unquestionably a growing cause of concern globally. The proliferation of devices, interfaces and networks introduces higher potential for security compromise, and ecosystem partnerships in IoT may blur the lines of service provider responsibility for privacy and security. Such risks are mitigated through regular internal and external assessments to ensure compliance with best practices / frameworks, in addition to investment in security projects to mitigate new types of attacks and threats.

Through various projects and programs with Zain Group, the Zain KSA team is leveraging and enhancing its Information Security and Cyber Risks domain of knowledge and mitigation plans. Continuously involved with Zain Group in determining the best solutions to mitigate those risks, Zain KSA is also coordinating efforts with other Zain Group operations since all operators are prone to similar information and cyber risks in the telecommunication industry.

Furthermore, an annual risk synergy forum is held where all Zain Group companies participate and widely discuss specific approaches which leads to enhancing Zain KSA's Information Security and Cyber Risks plans.

Inability to recruit adequately-skilled resources

With the transformation the Kingdom is going through under the umbrella of Saudi Vision 2030 and the participation of ministries and semi-govt. organizations, there is a huge demand for skilled resources who are often more oriented towards joining govt / semi-govt sectors. As Zain KSA invests and expands in new Enterprise & Digital service offerings, resources with new-age skill sets (Data Scientist, IOT, RPA) need to be recruited. There is an overlap in the skill sets required by the private and public sector, hence leading to an uneven competition. As a result, Zain KSA may not be able to achieve the desired results/benefits / operational effectiveness, if it is unable to retain key employees. As a way of mitigating this risk, the company is entering into partnerships with universities to attract resources with right skill sets in addition to conducting an upskill program for competency gap mitigation. In parallel, the company redesigned internships programs for specific degree holders and created a parallel ecosystem environment, with different work policies, to attract specific resources.

7. Fines And Penalties

Zain KSA persistently seeks to comply with the laws, regulations and instructions applicable to the Company in order to protect its interests and build a culture of compliance among its employees so as to create an effective partnership with all supervisory and regulatory authorities. This section contains the details of the penalties imposed on the Company from the supervisory, regulatory and judicial authorities and a description of the controls that the Company has implemented in order to avoid these penalties in the future and to comply with the instructions of these regulatory authorities:

Fine / penalty	Reasons for non-compliance	Authority	Controls to remedy the violation and avoid it in the future
Imposing fines worth SAR 8,452,000	Issuing SIM cards that are not in accordance with the regulations.	Communications and Information Technology Commission (CITC)	Establishing procedures to prevent such violations and follow-up with the relevant departments to ensure compliance with the laws and regulations
Imposing fines worth SAR 80,000	Deteriorating service quality or interruption thereof. Upon examining the complaint, CITC addressed the Company about it through the online complaints system and requested certain information, but the Company did not provide the required information within the designated deadline.		Devising solutions to reduce interruptions before customers submit their complaints to CITC.
Imposing fines worth SAR 40,000	Objections to bills and financial obligations. Upon examining the complaint, CITC addressed the Company about it through the online complaints system and issued a directive regarding it, but the Company did not implement the directive within the designated deadline.		Establishing procedures to ensure the implementation of CITC's directives within the designated deadline.
Imposing fines worth SAR 30,000	Failure to implement CITC's directives.		Establishing procedures to ensure the implementation of CITC's directives.
Imposing fines worth SAR 10,000	Objecting to signing up for and adding or modifying services or numbers without the subscriber's request. Upon examining the complaint, CITC addressed the Company about it through the online complaints system and issued a decision thereon, and also requested information about it, however, the Company did not implement that directive and did not provide CITC with the required information within the designated deadline.		Devising solutions to reduce shortcomings to limit complaints to CITC.
Imposing financial fines worth SAR 10,000	Objecting to not providing or activating a service. Upon examining the complaint, CITC addressed the Company about it through the online complaints system and issued a decision thereon and also requested information about it, however, the Company did not implement that directive and did not provide CITC with the required information within the designated deadline.		Establishing procedures to ensure the implementation of CITC's directives within the designated deadline.

Imposing fines worth SAR 30,000	Failure to respond to requests to transfer 3 numbers without the valid or legal justifications.		Establishing procedures to ensure that the requested information is submitted in accordance with the designated time frames.
Imposing fines worth SAR 10,000	Failure to implement a subscriber's request to terminate a service or suspend it temporarily. Upon examining the complaint, CITC has addressed the Company about it through the electronic complaints system and issued a directive thereon, however, the Company did not implement that directive within the designated deadline.		Establishing procedures to ensure that the requested information is submitted in accordance with the designated time frames.
Imposing fines worth SAR 2,100	Delayed renewal of licenses for a number of branches.	Ministry of Municipal and Rural Affairs.	Establishing effective procedures for renewing branch licenses.

Part of the fines imposed by CITC had no financial impact on Zain KSA as they were cross-charged to distributors responsible for the violations in accordance with the agreements executed between Zain KSA and distributors.

- **Relevant lawsuits**

There are a number of lawsuits between Zain KSA and the Communications and Information Technology Commission at the Administrative Court (Board of Grievances) related to violations and fines cited by CITC. Thus, the Company is keen to resort to the competent judicial authorities to ensure that CITC's decisions regarding it are fair and reasonable and adhere to the applicable laws and regulations in the Kingdom of Saudi Arabia. While the final outcome of the above mentioned cases cannot be predicted, the company will spare no effort and will use all legitimate means to defend its rights.

During 2019, CITC issued 30 administrative decisions against the company including imposing fines of varied amounts. According to CITC, the decisions are due to the company's violations of CITC's directives, including Directive No. 215. As a result, the company's legal department complained about most of these decisions before the Administrative Court (Board of Grievances), according to what is guaranteed by law.

Throughout 2019, the Administrative Court and the Administrative Appeal Court examined 27 administrative cases filed by the company against the CITC during the year. The Administrative Court issued a number of preliminary rulings in 2019 that were in favor of the company, and according to which the court decided to annul CITC's decisions. No final rulings were issued in favor of the company during 2019 and, as of the date of this report, the Administrative Court and the Administrative Appeal Court are still hearing a number of cases.

8. Declarations

Zain KSA declares that:

1. Proper books of account have been maintained.
2. The system of internal control is sound in design and has been effectively implemented.
3. There are no significant doubts concerning the company's ability to continue its activity.
4. There is no emphasis of a matter by the external auditor.
5. The external auditor's report did not contain reservations on the annual financial statements.
6. There was no inconsistency with the standards approved by the Saudi Organisation for Certified Public Accountants (SOCPA).
7. The Board did not recommend replacing the external auditor before the end of its term.
8. There are no treasury shares retained by the Company.
9. No investments made or reserves set-up for the benefit of employees.
10. redeemable debt instruments were redeemed, purchased, or cancelled by the Company until the date of this report.
11. No shares or debt instruments issued by any subsidiaries.
12. There was no notification of any interest in a class of voting shares held by persons (other than the company's directors, Senior Executives and their relatives), under Article Sixty-Eight of the CMA's Rules On The Offer Of Securities and Continuing Obligations.
13. There is a fully-fledged and independent internal audit function operating through the year.
14. There was no conflict between the Audit Committee's recommendations and the Board's resolutions which are relating to appointment, dismissal, performance assessment or determining the remuneration of the external auditor, or relating to the appointment of the internal auditor.

9. Financial Statements

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

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

Aldar Audit Bureau
Abdullah Al Basri & Co.
Member Firm of Grant Thornton International Ltd.
Grant Thornton | An instinct for growth™

Certified Accountants
Professional Partnership Co.
Lic. No. 323/11/36
C.R. 1010443881
C.C. 15070

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Mobile Telecommunications Company Saudi Arabia
(A Saudi Joint Stock Company)
Riyadh, Kingdom of Saudi Arabia

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Mobile Telecommunications Company Saudi Arabia** (the "Company") along with its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to these consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters (KAMs)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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3. Adoption of IFRS 16 'Leases' effective from January 2019

IFRS 16 "Leases" which the Group implemented on 1 January 2019; requires complex accounting treatments, including use of significant estimates such as lease terms and judgements for the determination of transition options and practical expedients; and the transition of which, gave rise to a right of use asset of SR 1.59 billion, a decrease in trade and other receivables of SR 269 million and a resultant increase in Lease liabilities of SR 1.61 billion Note 5 which are material to the consolidated financial statements.

Accordingly, we have considered this to be a key audit matter.

Our audit procedures in this area included, among others: Evaluating the appropriateness of the selection of accounting policies based on the requirements of IFRS 16, our business understanding and industry practice, considering the appropriateness of the transition approach and practical expedients applied. Evaluating the completeness, accuracy and relevance of data used in preparing the transition adjustments, assessing the completeness of the IFRS 16 lease population by inspecting relevant contracts that may contain a lease and testing the lease payments, evaluating the reasonableness of management's key judgements and estimates made in preparing the transition adjustments, specifically around estimation of the lease terms.

Other information included in the Group's Annual Report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

1. Revenue recognition and controls around IT subsystems

We have considered revenue to be a key audit matter since revenue is a key business driver for the Group, there is a presumed risk of fraud related to revenue recognition as per the International Standards on Auditing (ISAs), as endorsed in Kingdom of Saudi Arabia, the Group offers various types of products including multiple arrangements, voluminous transactions are carried out on a daily basis and revenue is recognized through automated systems.

We designed our audit procedures to address this key audit matter by performing first risk assessment procedures, which included identification of risks and related assertions by understanding the Group and its environment, documenting and evaluating accounting system for revenue covering activities, processes and internal controls relevant to revenue, performance of walkthroughs and tests of key controls to ensure design, implementation and operating effectiveness of internal controls. Analytical procedures were also performed. Our internal IT specialist was also involved to understand and evaluate the IT systems related to revenue and check reliability of data and reports generated through the IT systems. Thereafter, our audit procedures were designed according to the results of risk assessment procedures. We verified, on a test basis, invoices issued by the Group, reviewed key reconciliations performed by the Group's Revenue Assurance Team, performed detailed analytical procedures to understand that reasons for variance in revenue from last year have a business rationale, performed procedures to ensure that revenue recognition criteria adopted by the Group for all major revenue streams is appropriate and in line with the Group's accounting policies disclosed in the consolidated financial statements.

The Group's revenue streams recognized in the consolidated financial statements are disclosed in Note 21 to the consolidated financial statements. The Group's accounting policies for revenue recognition are disclosed in Note 3 to the consolidated financial statements.

2. Property and equipment and intangible assets

The Group has significant balance of property and equipment (SR 6.08 billion) and intangible assets (SR 16.22 billion) as at 31 December 2019. There are number of areas where management judgment impacts carrying value of property and equipment and intangibles which includes decision to capitalize or expense costs and annual review of assets' useful lives (depreciation and amortization period), depreciation method and residual values. Due to these, we considered property and equipment and intangible assets as a key audit matter.

Our audit procedures included identification of risks and related assertions by understanding the Group and its environment, assessment of design and operating effectiveness of internal controls over property and equipment and intangible asset accounting cycles, evaluating the appropriateness of capitalization policies, performing detailed verification, on test basis, on costs capitalized, checking timely transfer of assets from capital work in progress to completed assets, and checking calculation of depreciation and amortization for the year. In performing these procedures, we also discussed with management their judgments over nature of underlying costs to capitalize and appropriateness of useful lives.

Property and equipment and intangible assets are disclosed in Notes 10 and 11 respectively to the consolidated financial statements. The Group's accounting policies for property and equipment and intangibles assets are disclosed in Note 3 to the consolidated financial statements.

the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Abdullah Al Basri & Co.
P.O. Box 2195
Riyadh 11451
The Kingdom of Saudi Arabia

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, 10 Jumada al-Akhir 1441 H
Corresponding to 04 February, 2020

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, as endorsed in the Kingdom of Saudi Arabia by SOCPA, other standards and pronouncements issued by SOCPA, and by-laws of the Group and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs, as endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, as endorsed in the Kingdom of Saudi Arabia, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
Revenue	21	8,386,227	7,530,527
Cost of revenue	22	(2,417,721)	(2,105,968)
Operating and administrative expenses	23	(1,898,652)	(2,261,121)
Depreciation and amortization	10,12	(2,311,551)	(1,790,028)
Expected credit loss on financial assets (ECL)	7,8	(247,249)	(154,184)
Interest income		26,338	26,826
Other income	24	10,891	17,042
Finance cost	25	(1,044,501)	(930,732)
Net profit before Zakat		503,782	332,362
Zakat	26	(18,607)	-
Net profit for the year		485,175	332,362
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement of end of service benefit liability	18	4,886	4,863
Item that may be reclassified subsequently to profit or loss:			
Net change in fair value on hedging instruments entered into for cash flow hedges	17	(106,313)	(18,973)
Total comprehensive income for the year		383,748	318,252
Earnings per share (in Saudi Riyals)	27		
Basic and diluted		0.831	0.569

Mehdi Khalfaoui
CFO

Sultan Al-Deghaither
CEO

Naif bin Sultan bin Mohammed bin Saud Al Kabeer
Chairman

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Notes	2019	2018
ASSETS			
Current assets			
Cash and bank balances	6	1,157,438	1,416,731
Trade and other receivables	7	1,730,294	1,586,155
Contract assets - current	8	274,956	289,197
Inventories	9	241,972	223,005
Total current assets		3,404,660	3,515,088
Non-current assets			
Contract assets non-current	8	131,253	15,442
Right-of-use assets	5	1,448,479	-
Property and equipment	10	6,079,981	6,122,614
Capital advances	11	457,952	429,487
Intangible assets	12	16,215,928	16,240,679
Total non-current assets		24,333,593	22,808,222
TOTAL ASSETS		27,738,253	26,323,310
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	13	3,443,759	4,104,497
Current portion of long-term borrowings	14	58,941	2,526,633
Deferred revenue		621,319	720,476
Lease liabilities-current	5	364,098	-
Total current liabilities		4,488,117	7,351,606
Non-current liabilities			
Amounts due to related parties	15	6,375,763	6,584,703
Lease liabilities non-current	5	1,112,127	-
Other non-current liabilities	16	1,111,681	591,615
Long-term borrowings	14	10,314,940	7,668,127
Derivative financial instruments	17	127,899	21,586
Provision for employees' end of service benefits	18	104,875	93,425
Total non-current liabilities		19,147,285	14,959,456
Capital and reserves			
Share capital	20	5,837,292	5,837,292
Hedging reserve	17	(127,899)	(21,586)
Other reserves	18	1,584	(3,302)
Accumulated deficit		(1,608,126)	(1,800,156)
Total capital and reserves		4,102,851	4,012,248
TOTAL EQUITY AND LIABILITIES		27,738,253	26,323,310

Mehdi Khalfaoui CFO	Sultan Al-Deghaither CEO	Naif bin Sultan bin Mohammed bin Saud Al Kabeer Chairman

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit for the year		485,175	332,362
Adjustments to reconcile net profit for the year to net cash from operating activities:			
Expected credit loss on financial assets (ECL)	7,8	247,249	154,184
Depreciation and amortization	5,10,12	2,311,551	1,790,028
Other provisions / (reversal)		4,547	(16,354)
Zakat provision	26	18,607	-
Finance charges	25	1,044,501	930,732
Gain on disposal of assets		(2,847)	(2,211)
Currency revaluation loss/(gain)		1,246	(3,536)
Provision for employees' end-of-service benefits	18	21,911	22,119
Operating income before changes in working capital		4,131,940	3,207,324
Changes in working capital			
Trade and other receivables		(666,335)	(437,243)
Inventories		(18,967)	(113,526)
Contract assets		(101,569)	(304,639)
Trade and other payables		(433,598)	12,461
Deferred revenue		(99,158)	228,048
Other non-current liabilities		520,066	424,233
Cash flows generated from operating activities		3,332,379	3,016,658
Employee retirement benefits paid	18	(5,575)	(17,998)
Net cash generated from operating activities		3,326,804	2,998,660
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		(1,779,900)	(1,384,844)
Proceed from disposal of assets		3,384	2,497
Purchase of intangible assets		(258,287)	(159,282)
Net cash (used in) investing activities		(2,034,803)	(1,541,629)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowing facility		(2,550,000)	(1,294,899)
Proceed from borrowing facility		2,930,097	467,342
Proceed from Amounts due to related parties		-	137,405
Payment of lease liabilities		(414,538)	-
Finance cost paid		(1,516,266)	(465,016)
Net cash (used in) financing activities		(1,550,707)	(1,155,168)
Net change in cash and cash equivalents		(258,706)	301,863
Effect of movements in exchange rates on cash and cash equivalents		(587)	(941)
Cash and bank balances at beginning of the year		1,416,731	1,115,809
Cash and bank balances at end of the year		1,157,438	1,416,731

Mehdi Khalfaoui CFO	Sultan Al-Deghaither CEO	Naif bin Sultan bin Mohammed bin Saud Al Kabeer Chairman

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	Note	Share capital	Hedging reserve	Other reserves	Accumulated deficit	Total
Balance at 1 January 2019 as previously reported		**5,837,292**	**(21,586)**	**(3,302)**	**(1,800,156)**	**4,012,248**
Transition adjustment on adoption of IFRS 16	5	**-**	**-**	**-**	**(293,145)**	**(293,145)**
Balance at 1 January 2019 as restated		**5,837,292**	**(21,586)**	**(3,302)**	**(2,093,301)**	**3,719,103**
Total comprehensive income for the year		**-**	**(106,313)**	**4,886**	**485,175**	**383,748**
Balance at 31 December 2019		**5,837,292**	**(127,899)**	**1,584**	**(1,608,126)**	**4,102,851**
Balance at 1 January 2018		5,837,292	(2,613)	(8,165)	(2,132,518)	3,693,996
Total comprehensive income for the year		-	(18,973)	4,863	332,362	318,252
Balance at 31 December 2018		5,837,292	(21,586)	(3,302)	(1,800,156)	4,012,248

Mehdi Khalfaoui
CFO

Sultan Al-Deghaither
CEO

Naif bin Sultan bin Mohammed bin Saud Al Kabeer
Chairman

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated**)**

1 ORGANIZATION AND ACTIVITIES

1.1 *General Activities*

Mobile Telecommunications Company Saudi Arabia (the "Company") along with its subsidiaries (together the "Group"), provides mobile telecommunication services in the Kingdom of Saudi Arabia in which it operates, purchases, sells, distributes, delivers, installs, manages and maintains mobile telephone services and equipment. As well, the company provides consulting services; constructs and repair telecom towers; provides fintech services and provide technical drones services along with selling and repairing as mentioned in note 1.2

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

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

During the third quarter of 2018, the Company became a subsidiary of Mobile Telecommunications Company K.S.C.P. Kuwait ("Zain Group"). Zain Group is a subsidiary of Oman Telecommunications Company SAOG, Oman.

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 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).
b. Coordinate with the Ministry of Finance to discuss the alternatives regarding the amounts due to the government; and
c. Grant the Company a Unified License where it can offer all telecommunication services including fixed services which was issued on 23 Jumada first 1438 H (corresponding to 20 February 2017).

In the fourth quarter of 2018, the Company signed an agreement with the Ministry of Finance, the Ministry of Communications and Information Technology and CITC, which includes the consolidation of the annual royalty for commercial service and the settlement of disputed amounts for the period from 2009 to 2017, which includes the following:

a. Consolidate the annual royalty fee and reducing it from 15% to 10% of net revenues starting from 01 January 2018. (Impact was reflected in cost of revenue and sales); and
b. Settlement of the disputed amounts between the Company and CITC regarding the payment of disputed annual royalty fee for the period from 2009 to 2017. Under the condition, that the Company further invests in expanding its infrastructure in addition to other conditions over the next 3 years.

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

CONSOLIDATED STATEMENT OF CASH FLOW (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

	2019	2018
Adjustment transactions:		
Adjustment to property and equipment and intangible assets with corresponding effect to trade payable and capital advances	131,494	379,861
Adjustment to finance cost paid with corresponding effect to borrowings and amounts due to borrowings and related parties.	471,765	35,419
Changes in fair value of derivative financial instruments and corresponding debit to shareholders' equity	106,313	18,973
Adjustment to advances from shareholders and amounts due to related parties with corresponding effect to trade payable	208,941	539,591
Non- cash transaction of provisions with corresponding to accounts payables	712,607	433,255

Mehdi Khalfaoui	Sultan Al-Deghaither	Naif bin Sultan bin Mohammed bin Saud Al Kabeer
CFO	CEO	Chairman

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

1 ORGANIZATION AND ACTIVITIES (continued)

1.3 *Capital Restructure*

The Board of Directors, in their meeting held on May 7, 2018, recommended restructuring the share capital of the Company by reducing it from SR 5,837,291,750 to SR 3,616,110,780 and the total number of shares from 583,729,175 shares to 361,611,078 shares by cancellation of 222,118,097 shares. The purpose of such capital reduction is to absorb the accumulated losses of the Company as at June 30, 2017. Further, the Board has recommended increasing the share capital by SR 6,000,000,000 through the issuance of 600,000,000 new shares (rights issue) which will increase its capital from SAR 3,616,110,780 to SAR 9,616,110,780 and will result in the injection of additional fresh cash, which will be used to reduce the Company's debt. The recommendation of the Board is subject to the approval of the relevant authorities including the Capital Market Authority and the relevant extraordinary general assemblies

1.4 *Approved consolidated financial statements*

These consolidated financial statements were approved by the Board of Directors on 4th of February 2020.

1.5 *Refinancing Arrangements*

On 16 June 2019, the Company has signed a new Junior Murabaha facility agreement amounting to SR 2.25 billion with a consortium of five banks to settle its existing commercial loan which has been obtained from Industrial and Commercial Bank of China (ICBC). The agreement has better terms and will have lower financing cost. The duration of the agreement is two years, with an option to be extended for one year upon Company's request. This loan is fully secured by a corporate guarantee from Mobile Telecommunications Company K.S.C.P. In the third quarter 2019, the Company paid ICBC facility in full from the proceed of the Junior Murabaha facility.

2 BASIS OF PREPARATION

Statement of compliance

The consolidated financial statement have been prepared in accordance with International Financial Reporting Standard "IFRS" as endorsed by SOCPA in the Kingdom of Saudi Arabia along with other pronouncement endorsed by SOCPA and the Company's By-Laws.

IFRS 16 has been applied in preparation of these consolidated financial statements. The main changes to significant accounting policies are described (Note 5).

The Capital Market Authority (CMA) announced the Board of Commissioners resolution dated 16 October 2016 (corresponding to 15 Muharram 1438H), which obligates the listed entities to apply the cost model to measure the property, plant and equipment, investment properties and intangible assets upon adopting the IFRSs for three years period starting from the IFRSs adoption date, while continuing to abide by the IFRSs, that are endorsed in the Kingdom of Saudi Arabia, disclosure requirements, which require or encourage the disclosure of the fair value within the notes to the consolidated financial statements. The Company has complied with the requirements in these consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated)

1 ORGANIZATION AND ACTIVITIES (continued)

On 16 Jumada I 1440 H (corresponding to 22 January 2019) the Company acquired 2600 MHz spectrum for a period of 15 years starting from 1 January 2020, for a total license fee of SR 324 million payable in equal annual installments for 15 years starting from 1 January 2020.

On 10 Rajab 1440 H (corresponding to 17 March 2019) the Company acquired 100 MHz of additional spectrum in the 3.5 GHz spectrum, for a period of 15 years starting from 1 January 2020, for a total license fee of SR 624 million payable in equal annual installments for 13 years starting from 1 January 2022.

On 20 Rajab 1440 H (corresponding to 27 March 2019), the Company announces signing an agreement for the Sale and lease back of its Tower with IHS, worth SR 2.52 billion. The sale of approximately 8,100 passive tower infrastructure and the building of an additional 1,500 (over the next 6 years) together with the lease back of such towers, for 15 years with the option to extend. The transaction should be executed once the approvals of regulatory authorities including CITC is secured. On 20 Shawwal 1440H (corresponding to June 23, 2019), the Company received a letter from CITC stating that the towers purchaser did not meet the regulatory requirements for the purchase and lease of passive towers; therefore, it did not obtain a license to do so. Therefore, the company decided to cancel the sale of towers for this purchaser for regulatory reasons.

The Company incurred net profit from year ended 31 December 2019: SR 485 million, (2018: SR 332 million), had an accumulated deficit of SR 1.6 billion as at this date (31 December 2018: SR 1.8 billion) and the current liabilities of the company exceed the current assets of the company by SAR 1 billion. Based on the latest approved business plan, the Company's management believes that the Company will be successful in meeting its obligations in the 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.

1.2 *subsidiaries*

The Company established the following fully owned subsidiaries in KSA:

a. Zain Sales Company is engaged in distributing, selling telecom equipment and handsets; and providing consulting services. Share capital SR 10,000. It has started its operation in the first quarter of 2019.
b. Zain Business Company will engage in establishment, construction, repair and maintenance of telecom stations and towers. Share capital SR 10,000. The company is not operational yet.
c. Zain Payments Company will provide fintech services. Share capital SR 100,000. The company started its operation during the fourth quarter of 2019.
d. Zain Drones Company will provide professional, scientific and technical drones services along with selling and repairing drones. Share capital SR 10,000. The company started its operation during the fourth quarter of 2019

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019
(All amounts in Saudi Riyals thousands unless otherwise stated**)**

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The Company started capitalizing labor direct cost (technical internal salaries) for the new projects and added to telecom equipment in the property and equipment.

Capital advances

Capital advances is paid to supplier of capital equipment. The amount continues to be disclosed as capital advances till such time the asset is delivered. Once the equipment is supplied, the Capital advances is either transferred to telecom equipment or capital work in progress

Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

The Company applies the following annual rates of amortization to its intangible assets:

License fee	2.5%
Computer software	20% to 50%
Indefeasible Rights of Use (“IRU”)	6.67% to 10%
Spectrum	6.67%

Brands have an indefinite useful life and are assessed for impairment at annual reporting date.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss when the asset is derecognized.

Impairment of tangible and intangible assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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2 BASIS OF PREPARATION (continued)

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for the end of service benefits provision, which has been actuarially valued and the measurement of financial assets and financial liabilities at fair value as explained in the relevant accounting policies.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The Company has used same accounting policies which were used for the year ended 31 December 2018, unless mentioned otherwise.

Basis of consolidation

These consolidated financial statements comprising the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements of the Company, including assets, liabilities and the results of the operations of the Company and its fully owned subsidiaries, as set out in (note 1.2). Subsidiaries are consolidated from the date on which ownership commences until the date its ceases. Accounting policies of subsidiaries are aligned, where necessary, to ensure consistency with the policies adopted by the Company. The Company and its fully owned subsidiaries have the same reporting periods. The consolidation started in 2019 as the subsidiaries were incorporated in this year; therefore, the statement of financial position, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for 2018 are for the standalone entity.

Functional and presentation currency

Saudi Riyal is the functional currency. These consolidated financial statements are presented in Saudi Riyals (SR), rounded off to the nearest thousand.

3 SIGNIFICANT ACCOUNTING POLICIES

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses except for Capital work in progress and Land.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of annual reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The Company applies the following annual rates of depreciation to its property and equipment:

Telecommunications equipment	5% to 33.3%
IT systems and servers	20% to 33.3%
Leasehold Improvement	20% or shorter of lease term
Furniture, fixtures and office equipment	20%
Vehicles and other transportation equipment	20%

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Retirement benefits
The Company pays retirement contributions for its Saudi Arabian employees to the General Organization for Social Insurance. This represents a defined contribution plan. The payments made are expensed as incurred.

Short-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave, sick leave and air tickets in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

Government grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received.

Government grants related to the property and equipment are recorded as a deduction from the cost of the assets in arriving at the respective carrying amount. Any advance amount received is recorded as deferred grant and adjusted against recorded capital expenditure on assets. An excess realized is recorded under other income.

Grant related to income (reimbursement of expenses) are adjusted against the related expenses.

Foreign currencies

Transactions in currencies other than the Company's functional currency (foreign currencies), which is Saudi Riyals, are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Zakat

Zakat is calculated and provided for by the Company in accordance with Saudi Arabian fiscal regulations and is charged to profit or loss. It is calculated using zakat rates that have been enacted or substantively enacted by the end of the reporting period.

Borrowing cost

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of those assets. Other borrowing costs are charged to the statement of profit or loss.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.
If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and bank balances

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand and deposits held with banks, all of which have maturities of 90 days or less and are available for use by the Company unless otherwise stated.

Employee benefits

End of service benefits
The end of service benefits provision, which is a defined benefit plan, is determined using the projected unit credit method, with actuarial valuations being carried out at the end of annual reporting period. Remeasurements, comprising actuarial gains and losses, are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurements recognized in other comprehensive income are reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- interest expense; and
- re-measurements.

The Company presents the first two components of defined benefit costs in profit or loss in the line item “Operating and administrative expenses”.

The Company has started using actuarial valuation for employees’ end of service benefits obligation from the date of transition to IFRSs, on an annual basis.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Commissions and other contract costs

Under IFRS 15, certain incremental costs incurred in acquiring a contract with a customer is deferred on the consolidated statement of financial position and amortized as revenue is recognized under the related contract; this will generally lead to the later recognition of charges for some commissions payable to third party distributors and employees.

Intermediaries are given incentives by the Company to acquire new customers and upgrade existing customers. Activation commission and renewal commission paid on post-paid connections are amortized over the period of the contract. In case of prepaid customers, commission costs are expensed when incurred.

Customer loyalty programs

The Company operates a customer loyalty program that provides a variety of benefits for customers. The Company allocates the consideration received between products and services in a bundle including loyalty points as separate performance obligation based on their stand-alone selling prices.

Installation and activation services

Revenue from sale of SIM is recognized at the point in time upon activation when end customer takes control of the SIM. The Company provides installation services that are bundled together with the sale of devices to a customer. Contracts for bundled sales of devices and installation services are comprised of one performance obligations because the promises to transfer devices and provide installation services are not capable of being distinct. Accordingly, the Company recognizes revenue from bundled sales of devices and installation services over time, using an input method to measure progress towards complete satisfaction of the service, because the customer simultaneously receives and consumes the benefits provided by the Company.

IFRS 9 Financial Instruments

IFRS 9 'Financial Instruments' replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting. The primary impact on the Company relates to the provisioning for future expected credit losses on its financial assets and the requirement of certain additional disclosures.

Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments (for financial liabilities and derivatives that are used as hedging instruments, see below).

The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue

Revenues from operations consist of recurring revenues, such as billings to customers for monthly subscription fees, roaming, leased line and airtime usage fees, and non-recurring revenues, such as one-time connection fees, and telephone equipment and accessory sales.

Handsets and telecommunication services
Revenue from mobile telecommunication services provided to postpaid and prepaid customers is recognized as services are transferred. When the customer performs first, for example, by prepaying its promised consideration, the Company has a contract liability. If the Company performs first by satisfying a performance obligation, the Company has a contract asset. Consideration received from the sale of prepaid credit is recognized as contract liability until such time the customer uses the services when it is recognized as revenue.

The Company provides subsidized handsets to its customers along with mobile telecommunication services. IFRS 15 requires entities to allocate a contract’s transaction price to each performance obligation based on their relative stand-alone selling price. This resulted in reallocation of a portion of revenue from trading revenue to service revenue which was earlier recognized upfront on signing of the customer contract and correspondingly a creation of contract asset, which includes also some items previously presented as trade and other receivables. Contract asset represents receivable from customers that has not yet legally come into existence. The standalone selling prices are determined based on observable prices. Revenue from device sales is recognized when the device is delivered to the customer. This usually occurs when a customer signs the contract. For devices sold separately, customer pays in full at the point of sale. Revenue from voice, messaging, internet services etc. are included in the bundled package and are recognized as the services are rendered during the period of the contract.

Value added services - Principal vs. agent
Revenue from value added services (VAS) sharing arrangements depend on the analysis of the facts and circumstances surrounding these transactions. Revenue from VAS is recognized when the Company performs the related service and, depending on the Company’s control or lack of control on the services transferred to the customer, is recognized either at the gross amount billed to the customer or the amount receivable by the Company as commission for facilitating the service.

Significant financing component
If a customer can pay for purchased equipment or services over a period, IFRS 15 requires judgement to determine if the contract includes a significant financing component. If it does, then the transaction price is adjusted to reflect the time value of money.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments *(continued)*

Debt investments at FVOCI
These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to statement of profit or loss.

Equity investments at FVOCI
These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to statement of profit or loss.

The effect of adopting IFRS 9 on the carrying amounts of financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

The financial assets at amortized cost consist of trade receivables, cash and cash equivalents, and other receivables. Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- Debt securities that are determined to have low credit risk at the reporting date; and
- Other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.
When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when:

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Initial recognition of financial assets

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; Fair value through other comprehensive income (FVTOCI), or Fair value through profit or loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Classification and measurement of financial assets and financial liabilities *(continued)*

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

Subsequent measurement of financial assets.

Financial assets at FVTPL
These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in statement of profit or loss.

Financial assets at amortized cost
These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses (see below). Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on de-recognition is recognized in profit or loss.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments **(**continued)

Hedging

Derivative financial instruments

The Company uses the same accounting policies as per IAS 39. 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 equity. The gain or loss relating to the ineffective portion is recognized immediately in the statement of profit or loss and other comprehensive income. Gains or losses recognized initially in hedging reserve are transferred to the statement of profit or loss and other comprehensive income in the year in which the hedged item impacts the statement of profit or loss and other comprehensive income.

4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgments in applying accounting policies

The preparation of consolidated financial statements in accordance with IFRSs that are endorsed 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 significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Impairment of accounts receivable

An estimate of the collectible amount of accounts receivable is made based on the expected credit loss model at an amount equal to the life time ECLs. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

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3 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments *(continued)*

Impairment of financial assets *(continued)*

- The borrower is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realizing security (if any is held); or
- The financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive).
ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Company assesses whether financial assets carried at amortized cost and debt securities at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Presentation of impairment
Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Impairment losses related to trade and other receivables, including contract assets, are presented under distribution and marketing expenses

De-recognition of financial assets and liabilities

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

Classification and measurement of financial liabilities

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Company designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortized cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognized in statement profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

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5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

(a) Impact of the new definition of a lease

The Company has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered or changed before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.

The Company applies the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or changed on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

(b) Impact on Lessee Accounting

IFRS 16 changes how the Company accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Company:

- Recognizes right-of-use assets for property leases on a modified retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial applications.
- Recognizes lease liabilities at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019.
- Recognizes depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive, amortised as a reduction of rental expenses on a straight line basis.

Payments associated with leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Low-value assets comprise Information Technology (IT) equipment and small items of office furniture.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial applications.

The Company has used the following practical expedients when applying the cumulative catch-up approach to leases previously classified as operating leases applying IAS 17.

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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4 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

At the reporting date, gross trade receivables were SR 1,012 million with SR 765 million being provided for. Any difference between the amounts actually collected in future periods and the amounts expected will be recognized in profit or loss.

Useful lives and residual values of property and equipment and intangible assets

An estimate of the useful lives and residual values of property and equipment and intangible assets, which comprise a significant portion of the Company's total assets, is made for the purposes of calculating depreciation and amortization respectively. These estimates are made based on expected usage for useful lives. Residual value is determined based on experience and observable data where available.

Provision for employees' end of service benefits

The Company makes various estimates in determining the provision for employees' end of service benefits provision. These estimates are disclosed in note 18.

Zakat assessments

Provision for zakat and withholding taxes is determined by the Company in accordance with the requirements of the General Authority of Zakat and Tax ("GAZT") and is subject to change based on final assessments received from the GAZT. The Company recognizes liabilities for any anticipated zakat and withholding tax based on management's best estimates of whether additional zakat/taxes will be due. The final outcome of any additional amount assessed by the GAZT is dependent on the eventual outcome of the appeal process which the Company is entitled to. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences could impact the consolidated statement of profit or loss in the period in which such final determination is made.

5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

The Group has initially adopted IFRS 16 "Leases" from 1 January 2019.

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements. Differences in the carrying amounts of Right of use assets and Lease liability resulting from the adoption of IFRS 16 are recognized in retained earnings and reserves as at 1 January 2019. Accordingly, the information presented for 2018 does not generally reflect the requirements of IFRS 16 but rather those of IAS 17.

Impact of application of IFRS 16 Leases
In the current year, the Company applied IFRS 16 Leases that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets when such recognition exemptions are adopted. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Company has opted for the modified retrospective application permitted by IFRS 16 upon adoption of the new standard. The Company did not restate any comparative information, instead the cumulative effect of applying the standard is recognized as an adjustment to the opening balance of retained earnings at the date of initial application

The accounting policies of this new standard are disclosed in Note 5. The impact of the adoption of IFRS 16 on the Company's consolidated financial statements is described below.

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5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Whenever the Company incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Subsequent Measurement

After the commencement date, the Company measures the right-of-use asset at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the shorter of the asset's useful life and the lease term. The Company determines whether a right of use asset is impaired and recognizes any impairment loss identified in the statement of profit or loss. The depreciation starts at the commencement date of the lease.

The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for an identified impairment loss.

After the commencement date, the Company measures lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payment made.

The Company re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The constant periodic rate of interest is the discount rate used at the initial measurement of lease liability.

For a contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Sale and leaseback
The Company enters into sale and leaseback transactions whereby it sells certain assets to a third-party and immediately leases them back. Where sale proceeds received are judged to reflect the fair value, any gain or loss arising on disposal is recognized in the statement of profit or loss, to the extent that it relates to the rights that have been transferred. Gains and losses that relate to the rights that have been retained are included in the carrying amount of the right of use asset recognized at commencement of the lease. Where sale proceeds received are not at the fair value, any below market terms are recognized as a prepayment of lease payments, and above market terms are recognized as additional financing provided by the lessor.

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5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting for leases

Policy applicable from 1 January 2019

The Company as a lessee

The Company assesses whether contract is or contains a lease, at inception of the Contract. The Company recognizes a right of use asset and a corresponding lease liability on the date on which the lessor makes the asset available for use by the Company (the commencement date).

On that date, the Company measures the right of use at cost, which comprises of:

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and

an estimate of costs to be incurred to restoring the underlying asset to the condition required by the terms and conditions of the lease as a consequence of having used the underlying asset during a particular period; this is recognised as part of the cost of the right of use asset when the Company incurs the obligation for those costs, which may be at the commencement date or as a consequence of having used the asset during a particular period.

At the commencement date, the Company measures the lease liability at the present value of the lease payments that are not paid at that date. On that date, the lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

Lease payments included in measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Payments associated with leases of short term leases and low-value assets are recognized on a straight-line basis as an expense in profit or loss.

Lease Liabilities

	2019
Balance January 1, 2019	**1,609,819**
Additions	373,200
Finance Cost	83,808
Retirements	(176,064)
Payments	(414,538)
Balance December 31, 2019	**1,476,225**
Current	**364,098**
Non-Current	**1,112,127**

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5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table summarizes the impact on consolidated statement of financial position as at 31 December 2019:

	As reported	IFRS 16 Adjustments	Amounts without adoption of IFRS 16
ASSETS			
Current assets			
Cash and bank balances	**1,157,438**	-	**1,157,438**
Trade and other receivables	**1,730,294**	266,374	**1,996,668**
Contract assets	**274,956**	-	**274,956**
Inventories	**241,972**	-	**241,972**
Total current assets	**3,404,660**	**266,374**	**3,671,034**
Non-current assets			
Contract assets	**131,253**	-	**131,253**
Right-of-use assets	**1,448,479**	(1,448,479)	**-**
Property and equipment	**6,079,981**	-	**6,079,981**
Capital advances	**457,952**	-	**457,952**
Intangible assets	**16,215,928**	-	**16,215,928**
Total non-current assets	**24,333,593**	**(1,448,479)**	**22,885,114**
TOTAL ASSETS	**27,738,253**	**(1,182,105)**	**26,556,148**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	**3,443,759**	43,757	**3,487,516**
Current portion of long-term borrowings	**58,941**	-	**58,941**
Deferred revenue	**621,319**	-	**621,319**
Lease liabilities	**364,098**	(364,098)	**-**
Total current liabilities	**4,488,117**	**(320,341)**	**4,167,776**
Non-current liabilities			
Amounts due to related parties	**6,375,763**	-	**6,375,763**
Lease liabilities	**1,112,127**	(1,112,127)	**-**
Other non-current liabilities	**1,111,681**	-	**1,111,681**
Long-term borrowings	**10,314,940**	-	**10,314,940**
Derivative financial instruments	**127,899**	-	**127,899**
Provision for employees' end of service benefits	**104,875**	-	**104,875**
Total non-current liabilities	**19,147,285**	**(1,112,127)**	**18,035,158**
Capital and reserves			
Share capital	**5,837,292**	-	**5,837,292**
Hedging reserve	**(127,899)**	-	**(127,899)**
Other reserves	**1,584**	-	**1,584**
Accumulated deficit	**(1,608,126)**	250,363	**(1,357,763)**
Total capital and reserves	**4,102,851**	**250,363**	**4,353,214**
TOTAL LIABILITIES AND EQUITY	**27,738,253**	**(1,182,105)**	**26,556,148**

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

Where the Company is the lessor

Leases for which the Company is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

When a contract includes lease and non-lease components, the Company applies IFRS 15 to allocate consideration under the contract to each component.

	2019
Operating lease commitments disclosed as at 31 December 2018	**1,822,285**
Discounted using the lessee's incremental borrowing rate of at the date of initial application	1,295,119
Add/(less): adjustments as a result of a different treatment of extension and termination options and other adjustments	314,700
Lease liability recognized as at 1 January 2019	**1,609,819**
Of which are:	
Current lease liabilities	374,735
Non-current lease liabilities	1,235,084
	1,609,819

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 01 January 2019 was 5.6 % interest expense on lease liabilities amounted to SR 84 million for the year ended 31 December 2019.

	31 December 2018	**Increase/decrease**	**1 January 2019**
Right of use of assets	-	1,585,203	**1,585,203**
Trade and other receivables	1,586,155	(268,529)	**1,317,626**
Lease liabilities- current	-	374,735	**374,735**
Lease liabilities- non current	-	1,235,084	**1,235,084**
Accumulated deficit	(1,800,156)	(293,145)	**(2,093,301)**

The recognized right-of-use assets relate to the following types of assets:

	Land and building	**Cellular and other equipment**
Balance as of 1 January 2019	1,218,222	366,981
Add: Additions	400,725	14,639
Less: Amortizations	(301,832)	(104,908)
Less: Retirements	(21,488)	(123,860)
Closing balance as at 31 December 2019	**1,295,627**	**152,852**

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7 TRADE AND OTHER RECEIVABLES

	2019	2018
Trade receivables	**2,258,132**	1,798,411
Less: allowance for doubtful debts	**(1,008,828)**	(764,822)
Net trade receivables	**1,249,304**	1,033,589
Advances to suppliers	**59,684**	41,283
Prepayments	**51,693**	300,745
Advances for transmission lines and fiber links	**51,731**	55,957
Other receivables	**317,882**	154,581
	1,730,294	1,586,155

Trade receivables

The average credit period on sales of goods and services is 30 days. No interest is charged on trade receivables. The Company recognizes an allowance for doubtful debts based on ECL model considering the ageing of its overdue debtors which increases as the debtors become more overdue as historical experience indicates that the likelihood of amounts being recoverable decreases the more the amount is overdue.

The Company performs credit-vetting procedures before granting credit to new customers. These procedures are reviewed and updated on an ongoing basis. There have been no changes to these procedures from the previous year.

Two of the Company's debtors comprise 23% of the total trade receivables balance (2018:14%). There are no other customers who comprise more than 10% of the total trade receivables balance.

Trade receivables totaling SR 736 million (2018: SR 454 million) existed at the reporting date which were past due which had not been provided for, as per the policy, the amounts are still considered to be recoverable and there has not been a significant decrease in credit quality since credit was initially granted.

<u>**Age of overdue trade receivables not provided for**</u>

	2019	2018
60 to 90 days	**443,249**	316,704
120 to 180 days	**103,880**	66,482
180 to 360 days	**111,583**	70,648
Above 360 days	**77,235**	-
	735,947	453,834

There were no amounts at the reporting date that were neither past due nor impaired for which the credit quality had reduced since the initial granting of credit.

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5 CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

The following table summarizes the impact on the consolidated statement of profit or loss for the year ended 31 December 2019:

	For the year ended 31 December 2019		
	As reported	**IFRS 16 Adjustments**	**Amounts without adoption of IFRS 16**
Revenue	**8,386,227**	-	**8,386,227**
Cost of revenue	**(2,417,721)**	-	**(2,417,721)**
Operating and administrative expenses	**(1,898,652)**	(533,331)	**(2,431,983)**
Depreciation and amortization	**(2,311,551)**	406,740	**(1,904,811)**
Expected credit loss on financial assets (ECL)	**(247,249)**	-	**(247,249)**
Interest income	**26,338**	-	**26,338**
Other income	**10,891**	-	**10,891**
Finance cost	**(1,044,501)**	83,808	**(960,693)**
Net profit before Zakat	**503,782**	(42,783)	**460,999**
Zakat	**(18,607)**	-	**(18,607)**
Net profit for the year	**485,175**	**(42,783)**	**442,392**

6 CASH AND BANK BALANCES

	2019	2018
Cash on hand	**1,119**	711
Cash at banks	**556,319**	516,020
Time deposits	**600,000**	900,000
	1,157,438	1,416,731

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 average rates on these deposits during 2019 were 2.47% (2018: 2.26 %). The total commission earned by the Company during 2019 was SR 26.3 million (2018: SR 26.8 million).

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10 PROPERTY AND EQUIPMENT

	Land	Leasehold improvements	Telecom equipment	IT systems and servers	Furniture and office equipment	Transportation equipment	Capital work in progress	Total
Cost								
At 1 January 2019	**6,549**	**359,047**	**12,543,247**	**642,727**	**182,433**	**3,851**	**272,423**	**14,010,277**
Additions	-	4,049	1,158,286	13,237	4,480	-	53,175	**1,233,227**
Disposals / transfers	-	(49,210)	93,308	(24,784)	(42,059)	-	(246,770)	**(269,515)**
At 31 December 2019	**6,549**	**313,886**	**13,794,841**	**631,180**	**144,854**	**3,851**	**78,828**	**14,973,989**
Depreciation								
At 1 January 2019	**-**	**321,471**	**6,859,280**	**555,164**	**147,954**	**3,794**	**-**	**7,887,663**
Additions	-	21,400	1,097,006	41,591	17,305	17	-	**1,177,319**
Disposals	-	(53,724)	(10,089)	(65,195)	(41,966)	-	-	**(170,974)**
At 31 December 2019	**-**	**289,147**	**7,946,197**	**531,560**	**123,293**	**3,811**	**-**	**8,894,008**
Net book value	**6,549**	**24,739**	**5,848,644**	**99,620**	**21,561**	**40**	**78,828**	**6,079,981**

	Land	Leasehold improvements	Telecom equipment	IT systems and servers	Furniture and office equipment	Transportation equipment	Capital work in progress	Total
Cost								
At 1 January 2018	6,549	356,542	11,749,258	598,139	176,039	3,851	406,201	13,296,579
Additions	-	2,410	650,399	36,365	6,394	-	47,235	742,803
Disposals / transfers	-	95	143,590	8,223	-	-	(181,013)	(29,105)
At 31 December 2018	6,549	359,047	12,543,247	642,727	182,433	3,851	272,423	14,010,277
Depreciation								
At 1 January 2018	-	298,659	5,822,272	513,352	128,482	3,778	-	6,766,543
Additions	-	22,812	1,037,413	41,866	19,472	16	-	1,121,579
Disposals	-	-	(405)	(54)	-	-	-	(459)
At 31 December 2018	-	321,471	6,859,280	555,164	147,954	3,794	-	7,887,663
Net book value	6,549	37,576	5,683,967	87,563	34,479	57	272,423	6,122,614

The Company has capitalized, internal technical salaries, during the year ended 31 December 2019 amounting to SR 16 million (2018: SR 0)

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7 TRADE AND OTHER RECEIVABLES (continued)

Movement on the allowance for doubtful debts

	2019	2018
Opening balance	**764,822**	625,773
Charged for the year	**244,006**	154,184
Amounts reversed during the year	**-**	(15,135)
Closing balance	**1,008,828**	764,822

In determining the recoverability of a trade receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. The Company does not hold any collateral over the impaired trade receivables.

8 CONTRACT ASSETS

	2019	2018
Unbilled revenue	**409,452**	304,639
Less: Allowance for impairment losses	**(3,243)**	-
	406,209	304,639
Current	**274,956**	289,197
Non-current	**131,253**	15,442
	406,209	304,639

9 INVENTORIES

	2019	2018
Handsets and accessories	**255,796**	234,109
Sim cards	**1,676**	3,461
Prepaid recharge cards	**1,072**	2,892
Other inventories	**2,589**	1,704
	261,133	242,166
Less: Allowance for slow moving items	**(19,161)**	(19,161)
	241,972	223,005
Cost of inventories recognized as an expense	**1,113,967**	757,280

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12 INTANGIBLE ASSETS (continued)

The net book value and expiry dates of the most significant are as follows:

	End of amortization period	2019	2018
License fee	Jan 2047	**13,988,114**	14,505,247
Right of Use (multiple items)	Between 2023 & 2034	**967,425**	950,598
Spectrum 2x10Mhz (1760-1770, 1855-1865)	Dec 2032	**611,620**	658,668
Spectrum 2x10 of 800MHz	Dec 2033	**534,125**	-
		16,101,284	16,114,513

***License fee**

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 SR 22.91 billion. The license fee also comprises an amount equal to SR 449.18 million relating to financing costs which were capitalized as part of the license cost in accordance with accounting standards applicable in the Kingdom of Saudi Arabia at that time.

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), 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. This extended the remaining period to 32 years ending on 21/Rabi Al Awwal 1469 H (corresponding to 18 January 2047).

****Indefeasible Rights of Use ("IRU")**

IRUs corresponds to the right to use a portion of the capacity of a terrestrial or submarine transmission cable granted for a fixed period. IRUs are recognized at cost as an asset when the Company has the specific indefeasible right to use an identified portion of the underlying asset, generally optical fibers or dedicated wavelength bandwidth, and the duration of the right is for the major part of the underlying asset's economic life. They are amortized on a straight-line basis over the shorter of the expected period of use and the life of the contract which ranges between 10 to 20 years.

*****Spectrum**

Spectrum corresponds to the radio frequency allocated to the mobile acquired through a bid from CITC. Spectrum is recognized at discount using the interest effective method and amortized on a straight-line basis over contractual payment term. The liability amount related to the Spectrum capitalized under intangible assets is recorded under Other non-current liabilities.

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11 CAPITAL ADVANCES

	2019	2018
Capital advances	**457,952**	429,487

The Capital advances relate to the payment to supplier in advance and before completion of the project for telecom equipment. Upon completion, the amounts recognized as Capital advances are reclassified to PPE **.**

12 INTANGIBLE ASSETS

	License fee*	**Computer software licenses**	**IRU ****	**Brand**	**Spectrum*****	**Total**
Cost						
At 1 January 2019	**23,364,230**	**428,456**	**1,127,617**	**7,500**	**705,716**	**25,633,519**
Additions	-	8,966	92,724	-	571,776	**673,466**
Disposals / transfers	-	(240)	5,741	-	500	**6,001**
At 31 December 2019	**23,364,230**	**437,182**	**1,226,082**	**7,500**	**1,277,992**	**26,312,986**
Amortization						
At 1 January 2019	**8,858,983**	**309,791**	**177,019**	**-**	**47,047**	**9,392,840**
Additions	517,133	43,520	81,638	-	85,200	**727,491**
Disposals	-	(23,273)	-	-	-	**(23,273)**
At 31 December 2019	**9,376,116**	**330,038**	**258,657**	**-**	**132,247**	**10,097,058**
Net book value	**13,988,114**	**107,144**	**967,425**	**7,500**	**1,145,745**	**16,215,928**

	License fee*	**Computer software licenses**	**IRU ****	**Brand**	**Spectrum*****	**Total**
Cost						
At 1 January 2018	23,364,230	362,393	689,852	7,500	-	24,423,975
Additions	-	47,277	428,191	-	705,716	1,181,184
Disposals / transfers	-	18,786	9,574	-	-	28,360
At 31 December 2018	23,364,230	428,456	1,127,617	7,500	705,716	25,633,519
Amortization						
At 1 January 2018	8,341,849	269,802	112,740	-	-	8,724,391
Additions	517,134	39,989	64,279	-	47,047	668,449
At 31 December 2018	8,858,983	309,791	177,019	-	47,047	9,392,840
Net book value	14,505,247	118,665	950,598	7,500	658,669	16,240,679

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14 LONG-TERM BORROWINGS (continued)

14-1 Syndicated Murabaha facility

On 31 July 2013, the Company had refinanced 2009 "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 five years until 30 June 2018, which was due on 31 July 2013. This facility principal stood at SR 8.6 billion with the SR portion totaling SR 6.3 billion and the USD portion totaling USD 0.6 billion (SR 2.3 billion). This 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 a mandatory minimum amount due, with 75% due at maturity date. The Company settled SR 2.7 billion from this facility bringing the outstanding principal to SR 5.9 billion at the maturity date.

On 5 June 2018, the Company has refinanced 2013 "Murabaha financing agreement" and extended the maturity date for additional five years until 29 June 2023 with a three years' grace period. The new facility principal stands, at the financing day, at SR 5.9 billion with the SR portion totaling SR 4.25 billion and the USD portion totaling USD 0.45 billion (SR 1.705 billion). Moreover, the agreement includes a working capital facility totaling SR 647.3 million with the SR portion totaling SR 462.4 million and the USD portion totaling USD 49.3 million (SR 184.9 million) for two years. The working capital facility has not been utilized yet.

Financing charges, as specified under the "Murabaha financing agreement" are payable in quarterly installments over five years. The new facility is secured partially by a guarantee from Mobile Telecommunications Company K.S.C and a pledge of shares of the Company owned by some of the founding shareholders and assignment of certain contracts and receivables and fixed assets up to the outstanding balance.

The Company is complying with the existing loan covenants.

During the third quarter of 2018, the Company made an early voluntary payment for (SR portion: SR 428.3 million, and the USD portion: USD 45.8 million) totaling SR 600 million.

During the fourth quarter of 2018, the Company made a second early voluntary payment for (SR portion: SR 374.81 million, and the USD portion: USD 40.05 million) totaling SR 525 million.

During the second quarter of 2019, the Company made the third early voluntary payment for (SR portion: SR 214.2 million, and the USD portion: USD 22.88 million) totaling SR 300 million.

14-2 Industrial and Commercial Bank of China loan

On 15 August 2016, the Company has signed a long-term commercial loan facility agreement amounting to SR 2.25 billion with a two years' tenor that is extendable by one additional year and payable at maturity. The facility agreement signed with the Industrial and Commercial Bank of China replace the existing syndicated facility. The facility is unconditionally and irrevocably guaranteed by Mobile Telecommunications Company K.S.C. On 18 March 2018, the Company extended the final maturity date to 8 August 2019. On 3 July 2019, the Company settled the said facility from the proceed of the new Junior Murabaha facility.

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13 TRADE AND OTHER PAYABLES

	2019	2018
Accrued government charges	**819,540**	1,477,380
Trade payables	**966,001**	1,117,312
Accruals	**677,614**	574,353
Notes payable	**432,085**	397,225
Employee related accruals	**74,720**	81,006
Zakat provision	**18,607**	-
Other payables	**455,192**	457,221
	3,443,759	4,104,497

Accrued government charges and other payables contain regulatory and legal provisions for the amount of SR 999 million (2018: SR 1,712 million) with a net movement of 713 million (2018: SR 433 million). This movement in the provision is a non-cash transaction.

Trade payables includes amount due to related parties amounting to SR 4.4 million (2018: SR 32.3 million) for providing telecommunication services to related parties.

No interest is charged on trade payables. The Company has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

14 LONG-TERM BORROWINGS

	2019	2018
Syndicate Murabaha facility (refer to note 14.1)	**4,535,314**	4,837,087
Industrial and Commercial Bank of China loan (refer to note 14.2)	**-**	2,269,160
Ministry of Finance (refer to note 14.3)	**3,665,974**	3,179,998
Junior Murabaha Facility Agreement (refer to note 14.4)	**2,250,126**	-
Less: debt arrangement costs	**(77,533)**	(91,485)
Total	**10,373,881**	10,194,760
Less: current portion included in current liabilities	**(58,941)**	(2,526,633)
	10,314,940	7,668,127

The carrying amounts of the Company borrowings are denominated in the following currencies:

	2019	2018
Saudi Riyals	**9,076,558**	6,542,447
US Dollar	**1,297,323**	3,652,313
	10,373,881	10,194,760

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16 OTHER NON-CURRENT LIABILITIES

	2019	2018
Long-term Payable - Spectrum	**922,689**	416,341
Other	**188,992**	175,274
	1,111,681	591,615

17 DERIVATIVE FINANCIAL INSTRUMENTS

The Company entered into profit rate swaps, which mature in 2023. The notional amount of the contract as at 31 December 2019 was SR 2,980 million (2018: 2,980 million) and the fair value was a negative amount of SR 127.9 million (2018: 21.6 million) as at this date. The average contracted fixed interest rate ranges from 1.55% to 3%. A loss of SR 106 million was recognized in other comprehensive income (2018: 19 million) as a result of fair value movements relating to this hedge. The fair value of interest rate swaps at the end of the reporting period is determined by discounting the future cash flows using the curves at the end of the reporting period and the credit risk inherent in the contract.

18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

The Company provides end of service benefits to its employees. The entitlement is based upon the employees' final salary and length of service, subject to the completion of a minimum service year, calculated under the provisions of the labor Law and is payable upon resignation or termination of the employee. The expected costs of these benefits are accrued over the year of employment.

The Company's plan is exposed to actuarial risks such as: discount rate and salary risk.

- Discount risk: A decrease in the discount rate will increase the plan liability.
- Salary risk: The present value of the end of service benefit plan liability is calculated by reference to the estimated future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability

	2019	2018
Opening balance	**93,425**	94,167
Current service cost	**17,596**	18,167
Interest cost	**4,315**	3,952
Payments	**(5,575)**	(17,998)
Actuarial gain	**(4,886)**	(4,863)
Closing balance	**104,875**	**93,425**

The most recent actuarial valuation was performed by Lux Actuaries & Consultants and was performed using the projected unit credit method.

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14 LONG-TERM BORROWINGS (continued)

14-3 Ministry of Finance

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 SR 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 2019 amounted to SR 3,578 million (31 December 2018: SR 2,898 million).

14-4 Junior Murabaha

On 16 June 2019, the Company has signed a new Junior Murabaha facility agreement amounting to SR 2.25 billion with a consortium of five banks to settle its existing commercial loan which has been obtained from Industrial and Commercial Bank of China (ICBC). The agreement has better terms and will have lower financing cost. The duration of the agreement is two years, with an option to be extended for one year upon Company's request. This loan is fully secured by a corporate guarantee from Mobile Telecommunications Company K.S.C.P. Financing charges are payable in quarterly installments.

15 AMOUNTS DUE TO RELATED PARTIES

	2019	2018
Mobile Telecommunications Company K.S.C (refer to note 15.1)	**1,356,121**	1,140,618
Mobile Telecommunications Company K.S.C (refer to note 15.3)	**4,856,420**	5,277,458
Founding shareholders (refer to note 15.2)	**130,861**	134,888
Infra Capital Investments (refer to note 15.3)	**32,256**	31,661
Other related parties	**105**	78
	6,375,763	6,584,703

15-1 Mobile Telecommunications Company K.S.C

This amount relates to accrued management fees and is payable to the Company's largest shareholder. The amount is unsecured, interest free and does not have any fixed terms of repayment but is not repayable until certain conditions are met in the Syndicated Murabaha facility referred to in note 14.1.

15-2 Founding shareholders

This amount relates to accrued finance charges and is payable to the Company's founding shareholders. The amount is unsecured, bears interest at market rates and does not have any fixed terms of repayment but is not repayable until certain conditions are met in the Syndicated Murabaha facility referred to in note 14.1.

15-3 Mobile Telecommunications Company K.S.C and Infra Capital Investments

These amounts are payable to shareholders and bears interest at market rates. The amounts are unsecured and cannot be repaid until certain conditions are met in the Syndicated Murabaha facility referred to in note 14.1. These amounts include accrued financial charges of SR 1,413 million (2018: SR 1,838 million).

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21 REVENUE

Disaggregated revenue information
The total revenue disaggregated by major service lines is:

	2019	2018
Usage charges	**5,168,081**	4,437,112
Subscription	**1,921,340**	2,336,533
Sale of goods	**1,135,921**	727,063
Other revenue	**160,885**	29,819
	8,386,227	7,530,527

Timing of revenue recognition		
PO satisfied at a point in time	**1,135,921**	727,063
PO satisfied over a period of time	**7,250,306**	6,803,464

22 COST OF REVENUE

	2019	2018
Access charges	**1,071,244**	739,762
Cost of devices	**1,106,428**	746,413
Other	**240,049**	619,793
	2,417,721	2,105,968

23 OERATING AND ADMINISTRATIVE EXPENSES

	2019	2018
Employees' salaries and related charges	**622,825**	667,577
Rent expenses	**51,461**	455,481
Repairs and maintenance	**478,904**	509,562
Management and Branding fees (Note 15)	**215,504**	203,324
Biometric Expense	**22,241**	17,876
Microwave Frequency	**94,390**	88,421
Advertising	**112,098**	73,044
Leased lines	**56,140**	67,846
Utilities	**75,003**	60,938
Consulting	**56,568**	38,447
Other	**113,518**	78,605
	1,898,652	2,261,121

24 OTHER INCOME

	2019	2018
Foreign exchange (loss) / gains	**(1,246)**	3,536
Income from government grant	**9,290**	18,142
Gain on disposal of assets	**2,847**	2,211
Tax (non) / refundable	**-**	(6,847)
	10,891	17,042

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18 PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS (continued)

The principal assumptions used for the purposes of the actuarial valuation were as follows:

	2019	2018
Attrition rates	**10% to 13%**	10% to 13%
Salary increases	**4%**	4%
Discount rate	**4.45%**	4.90%

All movements in the end of service benefits liability are recognized in statement of profit or loss except for the actuarial gain which is recognized in other comprehensive income.

	2019	2018
Base Scenario	**104,875**	93,425
Discount Rate: Increase by 1%	**94,927**	84,184
Discount Rate: Decrease by 1%	**117,200**	104,328
Salary Escalation Rate: Increase by 1%	**117,130**	104,317
Salary Escalation Rate: Decrease by 1%	**94,291**	84,027

Particulars	**2019**	2018
Change in Financial Assumption	**(4,912)**	1,521
Change in the Salary Escalation Rate Assumption	**-**	-
Change in the Discount Rate	**(4,912)**	1,521
Change in Demographic Assumption	**-**	-
Change in the Mortality Rate Assumption	**-**	-
Change in the Attrition Rate Assumption	**-**	-
Experience Adjustment	**9,798**	3,342
Total Actuarial Gain	**4,886**	4,863

Other reserve	**2019**	2018
Opening balance	**(3,302)**	(8,165)
Remeasurement	**4,886**	4,863
Closing balance	**1,584**	(3,302)

19 RETIREMENT BENEFIT CONTRIBUTIONS

The Company paid retirement contributions for its Saudi Arabian employees for year 2019 to the General Organization for Social Insurance SR 25 million (2018: SR 18 million)

20 SHARE CAPITAL

The share capital of the Company as at 31 December 2019 comprised 583,729,175 shares (31 December 2018: 583,729,175) stated at SR 10 per share owned.

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26 COMPONENTS OF ZAKAT BASE (continued)

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 2018 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 General Authority of Zakat and Tax (GAZT) for the years 2009 to 2011 whereby they asked to pay an additional amount of SR 620 million of which SR 352 million are related to Zakat differences and SR 267 million as withholding tax subject to delay penalty payable from the due date up to the settlement date equals to 1% for every 30 days.

Zain appealed this claim for additional payments on 27 August 2015, and was able to have the amount of SR 352 million related to Zakat revoked entirely. In addition, SR 219 million of the withholding tax claim was also revoked.
To appeal before the High Appeal Committee (HAC), Zain completed the required conditions in the Articles of the Saudi Tax Law, by paying the invoices issued by GAZT amounting SR 48 million on 16 November 2017 related to Withholding Tax (WHT) and issued a bank guarantee for the amount of SR 43 million related to the penalty generated from the delay in paying the WHT.

Based on the above, Zain received the reassessment letter for the paid amount and presented its objections before the HAC on the preliminary Appeal Committee opinion on 19 November 2017.

There is no financial impact as the Company has sufficient provisions to cover these amounts.

27 EARNINGS PER SHARE

Basic and diluted Earnings per share is based on the profit for the year of SR 485 million (2018: SR 332 million) divided by the weighted average number of shares in issue of 583,729,175 (2018: 583,729,175).
No figure for diluted earnings per share has been calculated as there are no potentially dilutive ordinary shares outstanding.

28 FINANCIAL INSTRUMENTS

Capital management

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from the previous year.

The capital structure of the Company consists of debt and equity comprising share capital, the hedging reserve, the accumulated deficit, long-term borrowings and amounts due to related parties.

Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. The Company is exposed to foreign currency risk and interest rate risk only. The Company uses derivatives to manage market risk

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25 FINANCE COST

	2019	2018
Syndicate Murabaha facility	**342,560**	393,850
Related parties	**323,893**	304,174
Ministry of Finance	**131,326**	102,767
Interest on Leases liability	**83,808**	-
ICBC facility	**69,661**	106,310
Murabaha facility junior	**39,584**	-
Interest on Spectrum	**53,669**	23,501
Export credit facility	**-**	130
	1,044,501	930,732

26 COMPONENTS OF ZAKAT BASE

The significant components of the Company's approximate zakat base, for the year ended December 31, 2019, which are subject to certain adjustments under zakat and income tax regulations, principally comprise the following:

	2019	2018
Shareholders' equity at beginning of year	**4,037,136**	3,574,338
Provisions at beginning of year	**1,130,340**	1,088,621
Long-term borrowings and shareholders' advances	**16,662,260**	15,565,448
Other non – current liabilities	**922,688**	167,381
Adjusted net profit for the year (see below)	**744,268**	495,086
Property and equipment	**(6,079,981)**	(6,122,614)
Intangible assets	**(16,215,928)**	(16,240,679)
Capital advances	**(457,952)**	-
Approximate positive Zakat base of the Company	**742,831**	(1,472,419)

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

Components of adjusted net profit

	2019	2018
Net profit for the year	**485,175**	332,362
Provision for employees' end of service benefits	**11,450**	-
Allowance for doubtful debts and slow moving inventory	**244,006**	139,050
Other provisions	**3,637**	23,674
Adjusted net profit for the year	**744,268**	495,086

Zakat provision	**2019**	2018
Balance at beginning of the year	**-**	-
Charge for the year	**18,607**	-
Balance at end of the year	**18,607**	-

Zakat provision is mentioned under Note 13

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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28 FINANCIAL INSTRUMENTS (continued)

2019 Currency	**Impact on profit**
Euro	**30**
GBP	**87**

2018 Currency	Impact on profit
Euro	562
GBP	94

Interest and liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. There has been no change to this strategy from the previous year.

The Company is exposed to interest rate risk because entities in the Company borrow funds at floating interest rates. The risk is managed by the Company by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Company's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for all unhedged instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Company's profit for the year ended 31 December 2019 would decrease or increase by SR 54,252,164 (31 December 2018: SR 52,349,709). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings;

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Potential concentrations of credit risk consist principally of trade receivables, amounts due from a related party and short-term cash investments. Details of how credit risk relating to trade receivables is managed is disclosed in note 7. The amounts due from a related party are monitored and provision is made, where necessary, for any irrecoverable amounts. Short-term cash investments are only placed with banks with a high credit rating.

Expected credit loss (ECL) measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition wherein if a financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired and if the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

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28 FINANCIAL INSTRUMENTS (Continued)

Foreign currency risk management

The Company undertakes transactions denominated in foreign currencies which float against the Saudi Riyal and consequently, exposures to exchange rate fluctuations arise. These amounts are not hedged as the exposures are not considered to be material to the Company.

The carrying amounts of the Company's foreign currency denominated monetary liabilities at the end of the reporting year were as follows:

Foreign currency risk management

Details	**Date**	**Foreign currency**	**Foreign currency amount**	**Exchange rate**	
Trade and other payables	**2019**	**Euro**	**307**	**4.06**	**1,245**
Trade and other payables	2018	Euro	224	4.15	929

The carrying amounts of the Company's foreign currency denominated monetary assets at the end of the reporting year were as follows:

2019 **Details**	**Foreign currency**	**Foreign currency amount**	**Exchange rate**	
Cash and bank balances	**Euro**	**144**	**4.20**	**607**
Cash and bank balances	**GBP**	**361**	**4.84**	**1,749**
				2,356

2018 Details	Foreign currency	Foreign currency amount	Exchange rate	
Cash and bank balances	Euro	2,618	4.29	11,219
Cash and bank balances	GBP	396	4.76	1,886
				13,105

Foreign currency sensitivity analysis

The Company is mainly exposed to the currency of Europe (Euro) and the United Kingdom (GBP).

The following table details the sensitivity to a 5% increase and decrease in the Saudi Riyal against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates a decrease in profit where the Saudi Riyal strengthens 5% against the relevant currency. For a 5% weakening of the Saudi Riyal against the relevant currency, there would be a comparable impact on profit and the balances below would be negative.

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28 FINANCIAL INSTRUMENTS (continued)

The following table contains an analysis of the maximum credit risk exposure of financial instruments for which an ECL allowance is recognized:

	2019					2018
	ECL staging					
	Stage 1	Stage 2	Stage 3	Simplified approach		
	12 Month	Lifetime	Lifetime	Lifetime	Total	Total
Customers				**1,638,123**	**1,638,123**	1,269,860
Distributors				**274,039**	**274,039**	157,245
Contract assets				**409,452**	**409,452**	-
Less: ECL				**(1,009,403)**	**(1,009,403)**	(761,720)
				1,312,211	**1,312,211**	665,385
Roaming partners				**43,834**	**43,834**	56,263
Other operators (interconnect)				**289,233**	**289,233**	303,153
Less: ECL				**(2,586)**	**(2,586)**	(3,010)
				330,481	**330,481**	356,406
Other receivables				**12,903**	**12,903**	11,890
Less: ECL				**(82)**	**(82)**	(92)
				12,821	**12,821**	11,798

ECL allowance of trade and other receivables are assessed as follows:

	2019	2018
Collectively assessed	**1,009,403**	761,720
Individually assessed	**2,668**	3,102
	1,012,071	764,822

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28 FINANCIAL INSTRUMENTS (continued)

Significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Company considers quantitative, qualitative information and backstop indicators and analysis based on the Company's historical experience and expert credit risk assessment, including forward-looking information. For customer, distributors, roaming and interconnect trade receivables significant increase in credit risk criteria does not apply since the Company is using simplified approach which requires use of lifetime expected loss provision.

For amounts due from banks, the Company uses the low credit risk exemption as permitted by IFRS 9 based on the external rating agency credit grades. If the financial instrument is rated below BBB- (sub investment grade) on the reporting date, the Company considers it as significant increase in credit risk.

Financial instrument is determined to have low credit risk if:

- The financial instrument has a low risk of default,
- The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Company considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

Credit impaired assets

The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full, there is sufficient doubt about the ultimate collectability; or the customer is past due for more than 90 days.

Incorporation of forward looking information

The Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. The Company has performed historical analysis and identified Gross Domestic Product (GDP) of each geography in which they operate as the key economic variables impacting credit risk and ECL for each portfolio. Relevant macro-economic adjustments are applied to capture variations from economic scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Incorporating forward-looking information increases the degree of judgement required as to how changes in GDP will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

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28 FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. The Company 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. The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Less than one year	1 to 5 years	More than 5 years	Total contractual cash flows	Carrying amount
At 31 December 2019					
Borrowings	**482,065**	**11,062,654**	**394,868**	**11,939,587**	**10,373,881**
Trade and notes payable	**1,853,278**			**1,853,278**	**1,853,278**
Due to related parties	**-**	**7,521,651**	**-**	**7,521,651**	**6,375,763**
Lease liabilities	**484,563**	**1,102,523**	**549,068**	**2,136,154**	**1,476,225**
Long term payables - Spectrum	**-**	**476,391**	**776,392**	**1,252,783**	**922,689**
Derivatives	**127,899**	**-**	**-**	**127,899**	**127,899**
	2,947,805	**20,163,219**	**1,720,328**	**24,831,352**	**21,129,735**
At 31 December 2018					
Borrowings	2,682,496	8,494,051	519,928	11,696,475	10,194,760
Trade and notes payable	1,971,758	-	-	1,971,758	1,971,758
Due to related parties	-	8,071,779	-	8,071,779	6,584,703
Long term payables - Spectrum	-	236,392	295,490	531,882	416,341
Derivatives	21,586	-	-	21,586	21,586
	4,675,840	16,802,222	815,418	22,293,480	19,189,148

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28 FINANCIAL INSTRUMENTS (continued)

The following table shows the movement in the loss allowance that has been recognized for trade and other receivables:

	Collectively assessed	Individually assessed	Total
1 January 2019 under IFRS 9	761,720	3,102	764,822
Amounts reversed	(2,809)	(434)	(3,243)
Net increase in loss allowance	250,492	-	250,492
31 December 2019	**1,009,403**	**2,668**	**1,012,071**

For customer, distributor and contract assets, the Company uses a provision matrix based on the historic default rates observed and adjusted for forward looking factors to measure ECL as given below.

	2019			2018		
Aging brackets Of postpaid trade receivables	Estimated total gross carrying amount at default	Expected credit loss rate %	Lifetime ECL	Estimated total gross carrying amount at default	Expected credit loss rate %	Lifetime ECL
Not due /< 30 days	**899,860**	**0.40%**	**3,606**	433,725	0.80%	3,461
31 – 60 days	**87,086**	**0.12%**	**108**	46,869	1.95%	913
61 – 90 days	**36,328**	**0.13%**	**47**	39,370	3.06%	1,207
91 – 180 days	**129,374**	**19.71%**	**25,494**	85,491	12.50%	10,683
> 181 days	**187,608**	**40.52%**	**76,025**	99,916	23.74%	23,722
> 361 days	**981,358**	**92.13%**	**904,123**	721,734	100 %	721,734
	2,321,614		**1,009,403**	1,427,105		761,720

Credit quality of roaming, interconnect and other balances:

	2019	2018
Credit quality – Performing	**343,972**	368,971
Impaired	**1,998**	2,335
ECL	**(2,668)**	(3,102)
	343,302	368,204

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28 FINANCIAL INSTRUMENTS (continued)

	2019	2018
Financial Assets		
Financial assets at amortized cost:		
Cash and banks	**1,157,438**	1,416,731
Trade receivables	**1,249,304**	1,033,589
Total financial assets at amortized cost	**2,406,742**	2,450,320
Total financial assets	**2,406,742**	2,450,320
FINANCIAL LIABILITIES		
Financial liabilities at amortized cost:		
Trade payables and Notes payable	**1,853,278**	1,971,758
Due to related parties	**6,375,763**	6,584,703
Other non-current liabilities	**1,111,681**	591,615
Lease liability	**1,476,225**	-
Borrowings	**10,373,881**	10,194,760
Total Financial liabilities at amortized cost:	**21,190,828**	19,342,836
Financial liabilities at fair value:		
Derivative Financial Instruments	**127,899**	21,586
Total financial liabilities at fair value	**127,899**	21,586
Total financial liabilities	**21,318,727**	19,364,422

29 RELATED PARTY INFORMATION

During the year, the Company transacted with following related parties

Party	**Relationship**
Oman Telecommunications Company SAOG	Parent Company of Mobile Telecommunications Company KSCP
Mobile Telecommunications Company K.S.C. P (Zain Group)	Founding shareholder/ Parent Company
Zain Bahrain	Subsidiary to Zain Group
Zain Sudan	Subsidiary to Zain Group
MTC Lebanon S.A.R.L.	Subsidiary to Zain Group
Zain Iraq/ Atheer Telecom Iraq Limited ‘Atheer’	Subsidiary to Zain Group
Zain Global Communications Co. SPC	Subsidiary to Zain Group

During the year, the Company entered into the following trading transactions with related parties:

	2019	2018
Revenue from a subsidiaries	**19,415**	14,575
Purchases from a subsidiaries	**78,301**	11,988
Fees charged by a Founding shareholders (note 23)	**215,504**	203,324
Finance charges charged by a Founding shareholder (note 25)	**323,893**	304,174

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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28 FINANCIAL INSTRUMENTS (continued)

Fair value of financial instruments

Assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. This Companying is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All the financial assets and liabilities of the Company are carried at amortized cost except for hedging. Therefore, the fair value hierarchy disclosure which requires a three-level category of fair value is not disclosed.

The carrying values of all the financial assets and liabilities reflected in the financial statements are the reasonable approximation of their fair values.

The fair value of these derivatives was categorized as level 2.

Level 2 derivative financial instruments, these derivatives are valued using widely recognized valuation models. The Company relies on the counterparty for the valuation of these derivatives. The valuation techniques applied by the counterparties include the use of forward pricing standard models using present value calculations and mid-market valuations. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, credit spreads, foreign exchange rates, and forward and spot prices. (note 17).

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31 GOVERNMENT GRANTS RECEIVED

The Company received total government grant income during 2019: SR 18 million (2018: SAR 713 million). An amount of SR 172 million was set off against property and equipment (2018: SR 659 million).and SR 9 million was included in the net profit of this year (2018: SR 18 million).

32 CONTINGENT LIABILITIES

The Company had contingent liabilities in the form of letters of guarantee and letters of credit amounting to SR 262 million as at 31 December 2019 (31 December 2018: SR 260 million).

	2019	2018
Letter of Guarantee	**100,286**	99,059
Letter of Credit	**161,250**	161,250
	261,536	260,309

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 Company, after having consulted with its internal and external legal counsel and technical advisors, believes that these matters are not expected to have a significant impact on the financial position or the results of operations of the Company.

The CITC's violation committee has issued several penalty resolutions against the Company; which the Company has objected to. The reasons of issuing these resolutions vary between linking ID for the issued prepaid SIM Cards and providing promotions that have not been approved by CITC and/or other reasons.

33 SEGMENT REPORTING

The following is an analysis of the Group's revenues and results based on a segmental basis:

	For the year ended 31 December	
Revenues	**2019**	2018
Mobile Telecommunications Company	**8,084,684**	7,530,527
Zain Sales Company	**2,874,790**	-
Zain Payments	**23**	-
Zain Drones	**-**	-
Eliminations / Adjustments	**(2,573,270)**	-
Total Revenues	**8,386,227**	7,530,527
Cost of operations	**(4,316,373)**	(4,367,089)
Depreciation and amortization	**(2,311,551)**	(1,790,028)
Expected credit loss on financial assets (ECL)	**(247,249)**	(154,184)
Interest income	**26,338**	26,826
Other income	**10,891**	17,042
Finance cost	**(1,044,501)**	(930,732)
Zakat	**(18,607)**	-
Net Profit	**485,175**	332,362

The accompany notes (1) to (34) form an integral part of these consolidated financial statements

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29 RELATED PARTY INFORMATION(continued)

The following balances were outstanding at the reporting date:

	2019	2018
Amounts due to a Founding shareholders	**6,375,658**	6,584,625
Amounts due to a subsidiaries	**105**	78
Amounts due from a Founding shareholders	**2,295**	721
Amounts due from a subsidiaries	**230**	-

Other amounts due to related parties are disclosed in note 15.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received by related parties other than those disclosed in note 15. No amounts have been expensed in the current year for doubtful debts in respect of amounts owed by related parties.

Compensations and benefits to key management personal comprising remunerations to Board of Directors and other senior management members

	2019	2018
Short-term benefits	**33,194**	26,257
Long-term benefits	**2,502**	626

30 CAPITAL COMMITMENTS

The Company had capital commitments totaling SR 1,441 million (31 December 2018: SR 1,206 million)

The Company had contractual commitments for intangible assets totaling SR 948 million, related to Spectrum acquired in 2019 to be made operational in 2020, at the reporting date (31 December 2018: SR 840 million)

Capital management

The Company manages its capital to ensure it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from the previous year.

The Company's Net debt to equity ratio at the end of the year is as follows:

	2019	2018
Net Debt	**9,216,443**	8,778,029
Equity	**4,102,851**	4,012,248
Net debt to equity ratio	**2.25**	2.19

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33 SEGMENT REPORTING (continued)

Revenue reported above represents revenue generated from external and internal customers. There were SR 2,573 million in 2019 intercompany revenue and adjustments for Zain Sales Company eliminated at consolidation.

The following is an analysis of the Group's assets and liabilities based on a segmental basis:

Assets	**2019**	2018
Mobile Telecommunications Company	**31,947,008**	26,323,310
Zain Sales Company	**3,765,265**	-
Zain Payments	**734**	-
Zain Drones	**317**	-
Eliminations / Adjustments	**(7,975,071)**	-
Total Assets	**27,738,253**	26,323,310
Liabilities		
Mobile Telecommunications Company	**27,952,376**	22,311,062
Zain Sales Company	**3,666,648**	-
Zain Payments	**880**	-
Zain Drones	**584**	-
Eliminations / Adjustments	**(7,985,086)**	-
Total Liabilities	**23,635,402**	22,311,062

The major addition and disposals in Property and equipment and intangibles along with associated depreciation and amortization relate to Mobile Telecommunications Company.

34 COMPARATIVE FIGURES

Previous year figures have been rearranged and/or reclassified, wherever necessary, for the purpose of comparison in the financial statements. For better presentation and substance of transaction, a reclassification made in the Statement of Financial Position for Advances to capital goods from Property and equipment (CWIP) to Capital advances for the amount of SAR 458 million as at 31 December 2019 and from Trade and other receivables to Capital advances for the amount of SAR 429 million as at 31 December 2018.

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