



CEO'S MESSAGE

Ahmad Farroukh, Chief Executive Officer

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In 2016 we achieved our aim of turning the Company around and preparing for the next chapter. We demonstrated our ability to manage liquidity in a market in which it is scarce and we successfully implemented the new biometric registration process.

Ready for the next chapter The introduction of biometric registration proved challenging for all three of the Kingdom's mobile operators. However, Mobily showed impressive resilience by overcoming an initial reduction in subscriptions through the successful launch of our 30GB promotion campaign, which saw subscriptions increase in the second half of the year. Continuing with our 2015 'Turnaround' strategy, we improved our financial controls and enhanced our operational efficiency. Meanwhile, the widening of our spectrum sharpened our competitive edge. We are now clearly ready for a new chapter; the extension of our Communication and Information Technology Commission (CITC) license for 15 years – and the expectation of a unified license in 2017 – have reinforced our positive outlook.

Investing in people During 2016 we continued investing in Saudi talent, in line with the Kingdom's Vision 2030 program for boosting the quality of the local workforce. We run an extensive range of executive programs for Saudi nationals, among which the Mobily Elite initiative performed especially well. We have also developed opportunities targeting all executive and managerial levels, including support for leadership development programs at leading business schools in Spain, the UK, USA and Canada.

Development of technical skills at both junior and senior levels is of growing importance in our increasingly competitive marketplace, and has been an important area of focus. Training for the implementation of International Financial Reporting Standards (IFRS), starting from 2017, has been a critical challenge in 2016.



>> Please visit <https://annualreport.mobily.link/2016/en>

Strategic pathway 2017 The year ahead will see us focus on improving the digitalization of our services in order to enhance the customer experience. Subscribers have ever-higher expectations of their mobile service provider, and we intend to deliver a series of key differentiators that will boost our market share. We have already started a rigorous process of gathering and analyzing our Net Promoter Scores (NPS) across all customer touchpoints, and will make every effort to improve these in 2017. At an operational level, we will focus on further improving efficiencies and developing the sustainability of our operations over the long term. This will be achieved through monetizing and optimizing our existing asset base, while expanding it more efficiently.

Mobily now has a clear path for future growth – and I am grateful to everyone who has made that possible. Our employees deserve praise for their efforts in preparing the Company for a new chapter – and the hard work they have put in to rebuild our brand. Our customers have been equally important in that process, and they too have my wholehearted thanks. It is, after all, their loyalty and passion for our products and services that motivates us and drives us forward. We have a spring in our step again – and I am very much looking forward to the year ahead.

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CFO'S REVIEW

Kais Ben Hamida, Chief Financial Officer

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In 2016, Mobily successfully navigated a challenging macroeconomic environment. The slowdown in growth in Saudi Arabia, resulting from a low oil price environment, led to an increased fiscal deficit which put pressure on liquidity and increased the cost of funding. Several fiscal measures also led to a decrease in disposable income, which affected consumer spending. Regulatory changes resulted in lower interconnection rates, while biometric fingerprint registration resulted in the loss of 4 million subscribers from the market.

Financial performance Despite difficult market conditions, we were able to both protect and improve our profits. EBITDA improved by SAR 1,068 million. The EBITDA margin improved by 11.5 points. Operating cash flow continued to be significant, reaching SAR 800 million for the year ended 31 December 2016 compared to SAR (543) million in 2015. Losses were reduced from SAR 1,093 million in 2015 to SAR 203 million in 2016. Revenues for the year amounted to SAR 12,569 million compared to SAR 14,424 million in 2015. These results reflect the

efforts made by senior management to increase operational efficiency and deliver a wide range of cost optimization initiatives.

Financial management Our finance team worked hard to regain the trust of our lenders and resolve the issue of a breached covenant. I am pleased to report that we successfully solved this problem and restored our trust among both Saudi and international lenders. We look forward to working closely and collaboratively with them to deliver on our future financing requirements.

Considerable efforts were also made to rationalize CAPEX spending, as part of a broader strategy to make Mobily a more lean and agile organization, better prepared to meet fresh challenges presented by the market. From an operational perspective, solid progress was made towards sustainably decreasing our costs and improving our overall efficiency. This process is ongoing, and will continue into 2017.



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Looking ahead In the coming year we will seek to improve our business by enhancing and widening our product offering to regain our fair market share. We will maintain our efforts to improve operational efficiency by reducing costs and optimizing our existing assets and resources. We will also finalize the process of refinancing a large amount of the Company's debt, as we are finalizing our

negotiations with the banks to achieve that by early 2017. This is going to stabilize the financing structure and balance sheet of the Company. The Mobily team worked tirelessly throughout 2016 to prepare the Company for future growth and consolidate the excellent progress made towards stabilizing and strengthening the business. As a result, we now look forward with renewed confidence. ”

STRATEGY AND KPIs

In 2016 we entered the second stage of our 'Way Forward' strategy, having successfully implemented the 'Turnaround' phase in 2015. In this next part of our long-term program, we are focused on 'Selective Growth' to 2019. During the year we restored our 'challenger' position by boosting data profitability and improving customer experience. We also took steps towards further monetizing our fiber-optic network and maintained our focus on market- and profit-driven capital expenditure allocation.

I Operational efficiency

During 2016 we continued to improve the efficiency of our operations, making OPEX savings and delivering operational excellence. We are now making more effective use of our existing resources and working in a leaner, more agile way. We successfully resized and reorganized the Company, closing gaps in skills and capabilities and streamlining or replacing inefficient processes. By improving our efficiency, we have put ourselves in a strong position to meet future economic challenges and grasp new opportunities in the market.

I Selective growth

Our strategy in 2016 focused on achieving leadership in the Saudi mobile data market and unlocking value from our broadband services. Our main objectives for mobile (voice and data) are to deliver a more compelling data experience to customers, while at the same time attracting a greater number of customers in the mid- to high-value segment, particularly in the Kingdom's major cities. We also focused on better monetizing unutilized capacity on our voice network. To accomplish these objectives, we continued to invest in enhancing 4G speed, growing our competitive position and usage opportunities and delivering a high quality customer experience to help us to reach a service leadership position.

Another strategic focus was the acceleration of the adoption of Fixed Data (FTTx) as a challenger in the market – and we worked hard to monetize our on-the-ground network. This was made possible through operational excellence to enhance our systems and re-engineer critical processes, while leveraging and further developing our existing infrastructure to provide leading edge business solutions.

“ We are now making more effective use of our existing resources and working in a leaner, more agile way. ”

I Key Performance Indicators (KPIs)

To fulfill our objectives we have developed a clear execution agenda, with five main KPIs for the implementation of our strategic initiatives.

Winning propositions	Monetize FTTH	Rationalize CAPEX	Improve efficiency	Engage and retain
Revamping products and prices in Consumer and Business Units	Stimulating FTTH uptake in coverage areas	Implementing effective CAPEX governance	Optimizing structure; eliminating duplication in systems and processes	Building the capabilities of our people
Boosting data profitability	Enhancing sales, system and execution capabilities	Ensuring market and profit driven CAPEX allocation	Improving OPEX management	Engaging staff and retaining talent
Leveraging customer experience			Digitizing customer-facing and internal operations	

Supporting Vision 2030 and the National Transformation Plan

In 2016 the government of Saudi Arabia unveiled details of its National Transformation Plan (NTP), the foundation for implementing Vision 2030. The NTP has set targets for all sectors of the economy, with 24 participating ministries working on 178 strategic initiatives for meeting 346 targets. From the telecoms sector, Vision 2030's aim to build 'A Developed Digital Infrastructure' is of particular importance.

Mobily is working on to supporting the aims of the NTP by growing job opportunities for Saudi men and women, partnering with and supporting the work of relevant public sector bodies, and driving the growth of the Kingdom's digital landscape. The NTP aims to increase the contribution of the IT sector to non-oil GDP from 1.12% to 2.24%, and Mobily looks forward to playing a key role in the development of the industry.

Our growing spectrum will be important for improving network quality for the Kingdom's

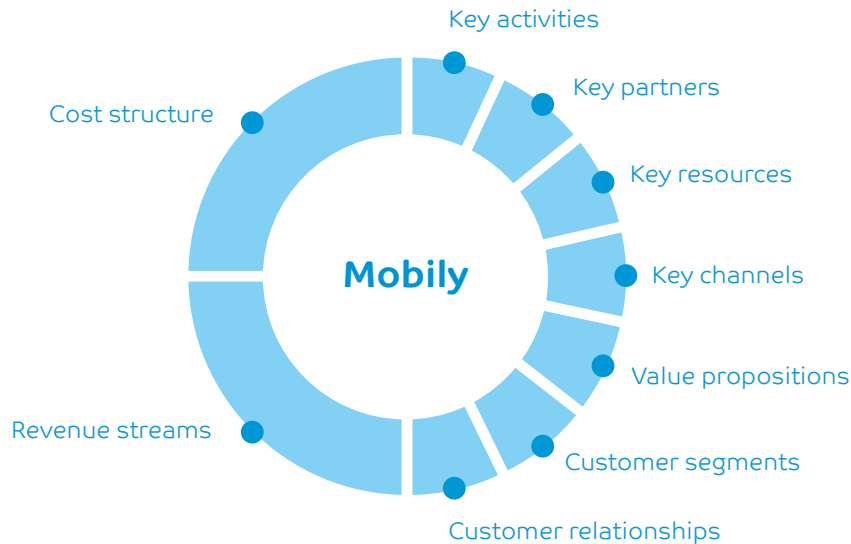
subscribers, while at the same time reducing our own CAPEX. Meanwhile, to support the expansion of broadband across the country – a key focus for Mobily – the government has created a budget of SAR 2.8 billion for its Broadband Stimulation and Universal Service funds.

A critical part of both our own and the NTP's strategy is to increase FTTH coverage across the Kingdom – a journey on which we are closely aligned. The CITC has an objective to increase FTTH coverage in densely populated areas from 44% to 80%, and the ongoing expansion of our own fiber network will be instrumental in supporting that aim. As the growth of our broadband network gathers momentum, we will also play an important part in supporting the government's aim of growing broadband coverage in remote areas from 12% to 70%.

“ A sophisticated digital infrastructure is integral to today's advanced industrial activities. It attracts investors and enhances the fundamental competitiveness of the Saudi economy. ”

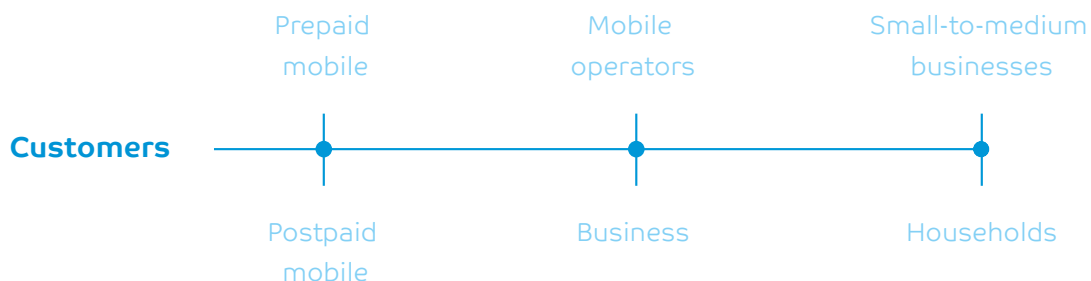
Vision 2030

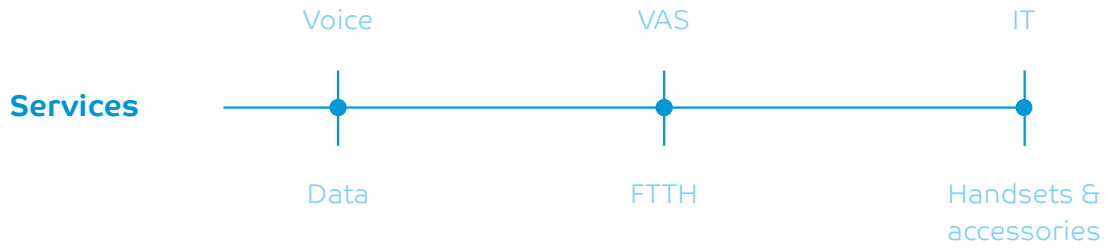
BUSINESS MODEL



Mobily's key activities are product development, sales, service delivery, network operations, customer support and billing. These activities are supported by two essential resources: our network and our people. We are particularly proud of the value we place on our customer relationships. These relationships are nurtured through a customer-focused approach to product development, direct and indirect marketing strategies, a

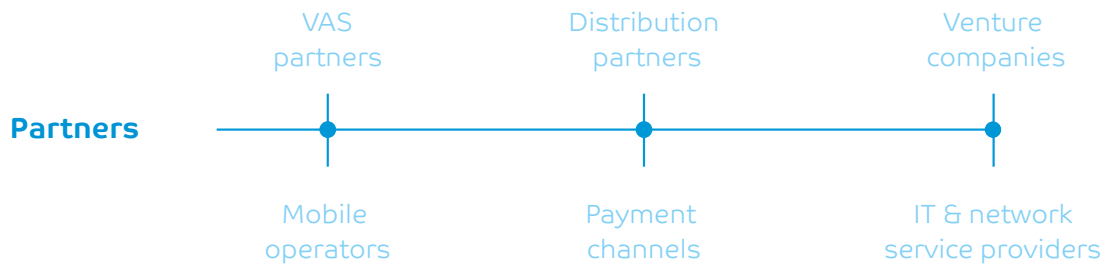
reward structure for customer loyalty and personalized services and product offers. Our customers are divided into six categories: prepaid (mobile), postpaid (mobile), mobile operators, businesses, small-to-medium businesses (SMBs) and households (FTTH). We communicate with our customers through a variety of media including online (website and social media), our mobile application, face-to-face interaction and our call center.





Mobily's value proposition is to deliver a one-stop shop providing best-in-class communication services to individuals, households and businesses. To achieve this, we bundle our voice, data, VAS, FTTH, IT and handsets and accessories services in various combinations. All our services

have a clear focus on quality, diversity and pricing. A number of essential partners support the delivery of our services; these are categorized as VAS partners, mobile operators, distribution partners, payment channels, venture companies and IT and network service providers.



The Company's cost structure accounts for sales and distribution costs, service delivery and support costs, and network development and operations costs. Our principal revenue

streams are interconnection charges, returns from ventures, handset and accessories sales, usage fees (voice, data, VAS and FTTH), IAAS sales and subscription fees.



MARKETPLACE

Our work in 2016 was carried out against a background of important macroeconomic developments. The lower oil price put pressure on companies in most sectors across the GCC. Towards the end of the year there were clear signs of stabilization between \$50 and \$60 per barrel, with prices boosted by OPEC's production cut announcement in November. This stabilization will be important for the broader security of the Saudi economy and is positive news for the Kingdom's listed companies, with liquidity in the market likely to improve.

In October the Saudi government conducted its largest ever US dollar bond sale, offering \$17.5 billion of government debt to global investors. The issuance was four times oversubscribed. An important series of spending cuts were also announced by the government in an effort to reduce the Kingdom's budget deficit, among which were certain allowances offered to public sector employees.

Saudi Arabia's mobile telecom market has shrunk after the implementation of biometric registration to reach penetration of approximately 153%. This percentage shows that despite development in the sector nearing saturation report, in the third quarter of 2016, total mobile subscriptions in Saudi Arabia had decreased to 49 million, having averaged 53 million in 2014 and 2015. Fixed broadband penetration is approximately 42%, with mobile broadband at 78.8%.*

The Kingdom's three main operators are Mobily, STC and Zain, with STC accounting for approximately 72% value share of the market. Mobily has about 19% value share, with Zain making up the remaining 9%. Value market share statistics are estimated according to available and disclosed information.

*Source: KSA ICT Indicators End of Q3 2016, Communications & Information Technology Commission

I Regulatory developments

The most important development for the telecoms industry in 2016 was the implementation of biometric registration for mobile subscribers, with unregistered customers' lines suspended from the third quarter. This had a negative impact on the subscription bases of all three of the Kingdom's operators. Mobily limited the impact of the initial reduction in subscribers by the successful launch of our 30GB promotion campaign, which led to a reduction of the decline in subscriber numbers in the fourth quarter of the year.

Along with other licensed telecom operators, Mobily was allowed to extend its license against government entitlement to 5% of the Company's annual net income for the duration of the extension period. The CITC also announced that it would allow operators to apply for issuance of a unified telecommunications license. The CITC suspended the availability of unlimited data offers on prepaid cards to safeguard fair network usage for all service providers.

I Opportunities

With its large population of young and first-time mobile users, Saudi Arabia enjoys an exceptionally high level of smartphone penetration. Moreover, businesses in the Kingdom have increasingly sophisticated mobility requirements, providing a further opportunity for Mobily to increase its mobile subscription base. The local market has an increasingly strong appetite for Fixed Data (FTTx), particularly in the form of high speed broadband in both the consumer and business segments. The private sector is currently engaged in a spending surge on ICT, as part of a quest for operational efficiency and performance. These are clear opportunities for us to tap into, and will be important areas of activity in the coming year.



INNOVATION AND TECHNOLOGY

Our focus on innovation sets us apart us from our competitors. While we are not the Kingdom's largest mobile operator, we take full advantage of our technical capabilities to add value for our customers. We believe that technology should be driven by customer satisfaction. While the expansion of our network coverage is important for top line growth, the quality of our service is of equal importance from a customer perspective.

In 2016 we introduced a range of new technologies and solutions to improve our services. In partnership with Huawei, we successfully launched the Kingdom's first LTE M-MIMO (Long Term Evolution Massive-Multiple Input and Multiple Output) network. With data speed of up to 600Mbps, we will be introducing the LTE TDD 2.6GHz network across Saudi Arabia over the next three years. As a result, our customers will be able to take advantage of high speed mobile broadband, with access to services including on-demand video and cloud gaming. During the year we also added capacity to our 4G FDD network by increasing the coverage of our FDD sites and installing additional FDD layers in certain key cities, including Mecca.

Meanwhile, our FTTH team worked hard to offer increasingly high speed connections to the market. Having previously invested heavily in our fiber network, we now cover 22 cities across the Kingdom. This year we implemented our strategy for monetizing our substantial FTTH asset base to capture more fixed line subscribers. This proved highly successful and we recorded almost 100% year-on-year growth in our fiber-to-the-home customer base, which has, in turn, driven substantial growth in FTTH revenues. Despite the challenges in the market, we are confident that demand for high speed and high quality fixed line internet will continue to grow.

Looking ahead, we will continue to increase our FDD coverage in cities where Mobily does not currently provide the service, in line with our 4G capacity growth plans. As part of our five-year strategy, we will focus on hiring and training employees with the skills to advance our technical capabilities and meet growing demand for new technologies such as 5G and the Internet of Things (IoT), particularly for businesses and the public sector.

SERVICE EXCELLENCE

We place our customers' needs at the heart of our business. Our team strives to continually develop new services and products, introducing promotions that specifically address the demands of the market. Loyalty and satisfaction are extremely important to us – and vital for maintaining and growing revenues – so we work hard to closely monitor, evaluate and respond to customer feedback and complaints. A particularly important project in 2016 was the gathering and analysis of Net Promoter Scores (NPS) from customers across all touchpoints. The results are helping us create a superior, digitalized customer experience journey that will clearly differentiate us from our competitors.

2016 also saw sustained efforts to provide greater mobility for our TDD customers, by improving the coverage of our 4G sites across the Kingdom. By growing this spectrum, we are giving our customers a connectivity speed that ranks among the best in the market. In the business segment, we developed our fiber offering to expand into Machine-to-Machine solutions, providing a more dynamic and wide-ranging suite of products to our commercial customers. Meanwhile, in the wholesale segment, we expanded our sales network to serve customers outside Saudi Arabia.

From a geographical perspective, we took steps to improve our 4G service to customers in major cities where it was previously weak. In 2016 we invested in key cities to improve customer satisfaction with our coverage, focusing on Riyadh, Jeddah, Dammam, Mecca, Madinah and Hafouf.

Our FTTH operations have become more efficient, and are therefore better placed to process and respond to an increasing number of customer orders. By reducing the average number of days from a customer placing an FTTH order to installation, we achieved a substantial increase in sales volume. At the same time, we recorded a considerable improvement in customer satisfaction. This achievement was made possible by optimizing the deployment of our resources, rather than expanding our sales force. FTTH was one of our major success stories in 2016: not only did it experience considerable growth, it demonstrated our ability to provide a complete package of services to Saudi consumers. From fixed line broadband to TV connectivity, we are delivering truly holistic solutions to the Kingdom's homes.



INVESTING IN PEOPLE

We recognize that our most important asset is the team behind our day-to-day operations. Our dedicated and talented employees are fundamental to our success as a leading telecoms operator.

In 2016 we continued our efforts to attract and retain the best available talent. As of the end of 2016, we employed a total of 5,395 employees across the Kingdom, both directly and through our subsidiaries. The Saudization rate of Mobily staff is a platinum-level 78%. This impressive proportion is clear testament to our commitment to Vision 2030 and the Saudi government's program to boost opportunities for the local workforce.

In 2016 we participated in Etisalat's HR Excellence exercise for the fifth year running. This is an assessment initiative run by Etisalat in accordance with the EFQM Business Excellence model, emphasizing the importance of continuous improvement in HR processes and promoting HR best practice around a framework of 'Plan/Approach, Do/Deploy, Check/Assess, Improve/Results'. The objective is to provide fresh external perspectives for our HR function, and to enable knowledge sharing between Etisalat Group companies.

I Optimizing resources

Having initiated the restructuring of the Company in 2015, we successfully completed this element of our 'Turnaround' strategy. Our objective was to rationalize the management structure across a number of levels, clarifying roles and responsibilities and creating a more agile business, better suited to delivering on its core objectives and meeting changing market demands. Our HR team played an active role in controlling the Company's operating costs by driving the reorganization of the business, reviewing existing policies and practices, re-evaluating roles and streamlining the manpower planning process.

I Rewards and remuneration

We recognize the importance of nurturing our employees and rewarding performance. We provide our staff with a range of fixed and variable compensation and rewards in line with a Total Rewards Strategy (TRS). The strategy has three main pillars: Foundational Rewards, Performance-Based Rewards and Career and Environmental Rewards. Our rewards programs are structured as follows:

“ A total of 3,034 learning and development opportunities were provided to staff in 2016. ”



Pillar	Program
Foundational Rewards	<ul style="list-style-type: none"> • Benchmark salaries against the Saudi market • Review and optimize operational costs • Retain talent and employees in critical positions
Performance-Based Rewards	<ul style="list-style-type: none"> • Enhancement of performance management scheme • Enhancement of annual bonus scheme • Enhancement of variable pay system for sales, collections and customer care
Career and Environmental Rewards	<ul style="list-style-type: none"> • Internal hiring process • Leadership development programs • Long service awards program • Spot awards

I Training and development

We are committed to advancing the careers of Saudi Arabia's business leaders. In 2016 we placed a strong emphasis on developing the skills of our C-suite and management team members. The newly launched QYADY program enables senior staff to attend leading international business schools, including

Harvard for C-suite executives, London Business School for senior executives, ESADE for EGMs and GMs, and Queen's University in Ontario, Canada for directors. During the year more than 180 staff benefitted from the program.

Across the wider company, a total of 3,034 learning and development opportunities were provided to staff in 2016. Among others, these included:

- Media training
- Corporate governance workshops
- Advanced finance for non-finance professionals
- Project Management Professional (PMP) courses
- Investigation and interrogation training
- Six Sigma (Green and Black Belt) programs
- International Financial Reporting Standard (IFRS) courses
- Statistical sampling and data analysis training for internal auditors
- Certified Human Resource Manager (CHRM) courses
- Managing channel partner workshops

Preparing the next generation

Our popular Mobily Elite program had another successful year. The initiative aims to attract new graduates as part of our wider objective to develop the skills of the Kingdom's young professional demographic. The program is designed to identify and hire talented local individuals with outstanding capabilities that will contribute to Mobily's long-term vision. In 2016, 20 graduates joined the 24-month course, during which they will experience four different inter/intra-divisional rotations. In addition, the scheme offers four modules that address core leadership competencies as well as critical issues relevant to the telecom industry. Mobily has partnered with Smith School of Business and Queen's University to deliver coaching for the modules, while an accumulative assessment evaluation methodology is used to measure candidates' performance throughout the program.

SOCIAL RESPONSIBILITY

As an integral part of Saudi society, we have a clear responsibility to nurture the well-being of our employees and the communities in which we work. We aim to contribute to the socio-economic growth of the Kingdom by providing career opportunities and engaging constructively with our staff, as well as encouraging entrepreneurial spirit, and ‘giving back’ through supporting charitable and philanthropic causes.

I Engaging our employees

Mobily’s primary responsibility is to its people – and in order to provide them with a clear sense of appreciation and team spirit, we are committed to transparent internal communication. Our company newspaper, Nashrati, and the digital platform Yammer are particularly important internal communication channels. Nashrati has, for several years, been an effective tool for employees to share their professional and personal experiences and achievements. It is also a channel for advertising vacant positions to colleagues, communicating management news and updates on corporate developments.

Yammer was especially useful in 2016, allowing senior management to engage directly with employees at all levels across the Kingdom, as well as providing opportunities for staff to participate in competitions during Eid, Hajj, and National Day. We use the platform to promote training programs and receive feedback from participants, as well as to provide solutions to employee challenges and support staff with any issues that might arise in the workplace.

We hosted numerous key engagement activities during the year including staff Eid receptions, CEO Town Hall meetings, ‘Coffee with the CEO’, C-suite majlis meetings and knowledge sharing sessions. We also held cultural workshops covering subjects from poetry and calligraphy to photography and creative writing. We are strongly committed to the health and wellness of our employees, conducting ‘My Health and Safety’ workshops at Nahdi Health Lounge in Najran and Tawuniya Health Lounges in Riyadh, Jeddah and Dammam. We also participated in World Diabetes Day to promote the benefits of healthy eating and an active lifestyle.

Supporting the Saudi community

Mobily supports a wide range of charitable and philanthropic causes, as well as entrepreneurial and cultural initiatives in the Kingdom. In 2016 we supported the Saudi Autism Association, with visits by female staff to centers in Riyadh and Dammam. During the Holy Month we ran a Ramadan Breakfast Initiative with the ENSAN and EKAA foundations for disadvantaged families, and on World Down Syndrome Day, we hosted a group of children from the Saudi Down Syndrome Charitable Association (DSCA). We were also a leading sponsor of the third Saudi International Exhibition for People with Special Needs.

In support of Saudi Arabia's young tech entrepreneurs, we continued to run the Mobily App Developer Community – a social and commercial hub providing resources, tools and guidance for building and marketing mobile applications. The Community helps young developers kick-start their careers, sending winners of the annual Arabic-language app development competition (#MobilyHackathon) to Silicon Valley for the opportunity to hone their skills.

As enthusiastic supporters of Saudi culture, we were a leading sponsor of the 'Love Your Heritage' exhibition, and collaborated with UFM Radio in 2016 to provide educational and family content services during the Holy Month of Ramadan.

