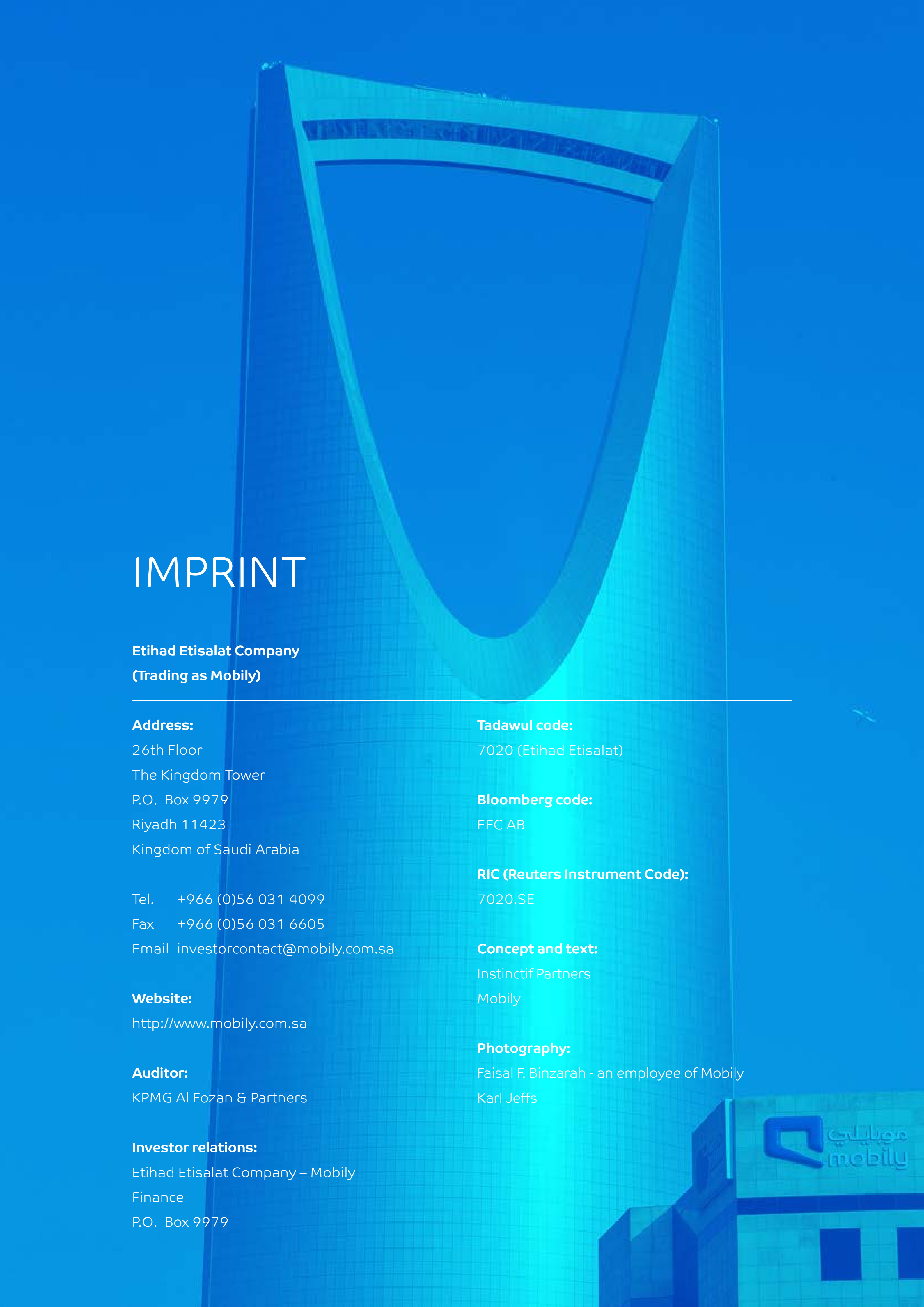
Ready
for the next
chapter

Annual Report
2016



IMPRINT

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(Trading as Mobily)

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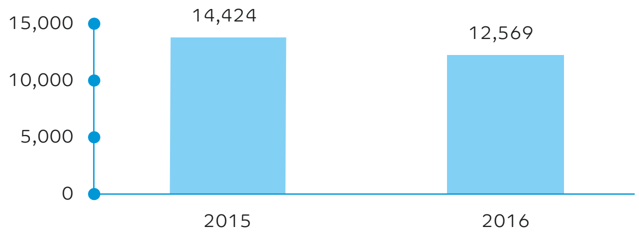
FINANCIAL HIGHLIGHTS

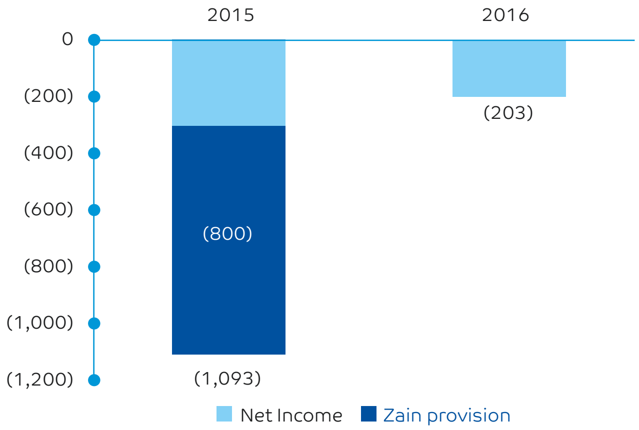
Revenues

SAR million



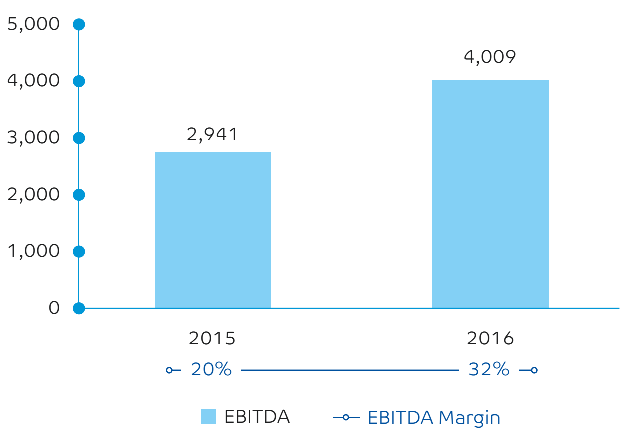
Net Income/(Loss)

SAR million



EBITDA & EBITDA Margin

SAR million



2016 AT A GLANCE

3,034
Learning & development opportunities for staff

20
Mobily Elite candidates
11 Saudi women, 9 Saudi men

11%
contribution to revenues by Business segment

46 flagship stores
262 fully branded outlets
92 modern trade outlets
> 6,000 retailers

23%
year-on-year growth in FTTH homes

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ABOUT MOBILY

Etihad Etisalat (Mobily) was established in 2004 by a consortium led by Etisalat, the UAE-based telecom conglomerate. The Company's major shareholders are Etisalat Emirates Group (27.45%) and the General Organization for Social Insurance (11.85%). The remaining shares are owned by institutional and retail investors.

As the winning bidder for Saudi Arabia's second GSM license in 2004, Mobily broke Saudi Telecom's monopoly in the wireless industry to provide mobile telecommunications services nationwide. After a six month preparatory phase, we launched commercially in May 2005, acquiring over one million subscribers in our first 90 days of operation. In 2006, the GSM Association named Mobily the fastest growing mobile operator in the Middle East and North Africa. The same year, we launched 3.5G services, with 4G services introduced in 2011.

Our growth has been characterized by several significant strategic acquisitions. In 2008, we obtained approval from the Communication and Information Technology Commission (CITC) to acquire Bayanat al-Oula, a licensed data service provider, for SAR 1.5 billion. Later that year we acquired an absolute majority stake in Zajil, the leading Saudi internet service provider.

Mobily owns 66% of the Saudi National Fiber Network, one of the world's largest fiber-optic networks. This allows us to offer our customers a comprehensive communication infrastructure covering mobile and broadband.

Our network has been established as a joint collaboration with Bayanat al-Oula and the Integrated Telecom Company. This is the Kingdom's newest fiber-optic network, with access to all major cities, more than 24,000 km of roads, and covering 99% of the population. The network has been expanded to connect to neighboring countries including Yemen, the United Arab Emirates, Bahrain, Qatar, Kuwait and Jordan.

Mobily has been listed on Saudi Arabia's Tadawul stock exchange since 2004 and has a share capital of SAR 7,700 million, consisting of 770 million shares of SAR 10.00 each, paid in full as at 31 December 2016.

VISION, MISSION AND VALUES

Vision

Enriching your life by continuously leading and innovating in communications services

Mission

To exceed the expectations of our employees and customers by fully leveraging our capabilities and potential

Values

Pioneering, Respectful, Passionate, Empowering, Reliable

CHAIRMAN'S STATEMENT

Suliman Al Gwaiz, Chairman of the Board

"**It is my pleasure to introduce Mobily's Annual Report** for the year ended 31 December 2016. The following pages provide a summary of a year in which we prepared for a new chapter. Against a challenging macroeconomic background, we successfully completed the 'Turnaround' phase of our 'Way Forward' strategy, and I am pleased to report that we are now in a position for future growth. The socioeconomic dynamics of Saudi Arabia have changed a great deal, with disposable income of consumers under growing pressure. This has squeezed the revenues of the telecom sector, but we are confident that our innovative approach to new products and services will continue to set us apart from our competitors in the years ahead.

Highlights of the year included improvements in operational efficiency and profit margin enhancements. We have also added capacity to our mobile spectrum, which will enable us to better serve our customers' growing connectivity requirements.

Additionally, 2016 included the news that we will be able to extend our CITC operating license for 15 years, against a contribution of 5% of our net result after the expiry of our existing license in 2029. We successfully met the newly introduced regulation for biometric registration of mobile users. I would like to express the Company's gratitude to the arbitration teams who successfully handled our legal dispute with Zain KSA.

We maintained our commitment to Saudi society by supporting Vision 2030's aims for nurturing the Kingdom's workforce and providing career development opportunities. The Mobily Elite program, in particular, has been a stand-out success. We continued to support a wide range of philanthropic and charitable causes, as well as entrepreneurial initiatives such as the Mobily App Developer Community. We also took important steps towards improving internal engagement and communication, particularly through the use of the digital platform, Yammer, which has helped management respond directly to employee concerns and suggestions.

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

The adoption of International Financial Reporting Standards (IFRS) , was a key focus in 2016 and in January 2017 we announced full compliance with IFRS.

In 2017 we will announce a new Technical and Service Support Agreement with Etisalat Group, with the previous management agreement having expired on 23 December 2016. Mobily has reached a level of growth that enables it to work with more flexibility. The two companies have agreed on the non-renewal of the agreement, while Mobily will benefit from the support of Etisalat through the new Technical Service and Support Agreement, the details of which will be announced upon finalization.

I would like to express my thanks to the Board of Directors for their ongoing and dedicated work towards our future success. I would also like to thank our shareholders for the loyalty, trust and support they have shown us throughout the year. I would, finally, like to thank our management. Their tireless efforts have driven our achievements in 2016, and we look ahead to 2017. ”

READY FOR THE NEXT CHAPTER

In 2015, following a challenging period for Mobily, we reported on the process of stabilizing and strengthening the Company at its core. This work continued in 2016 and a number of important achievements testify to the success of our revised strategy. The Mobily team worked tirelessly in a challenging marketplace to consolidate the excellent work previously undertaken, and we are proud to report that we are now ready for a new chapter.

Highlights of the year included the resolution of financing issues with the banks, as well as the conclusion of a long-standing legal dispute with Zain Saudi Arabia. As in 2015, our management and Board maintained a strong focus on improving operational efficiency and optimizing costs. As indicated by our full year results, we successfully delivered significant improvements on our EBITDA margin, as well as operational cash flow. We are now in a strong position for future growth and are confident of improved results in the short to medium term.

We are well into the implementation stage of our 'Way Forward' strategy. This long-term program comprises two distinct phases: 'Turnaround', from 2015 to 2016, and 'Selective Growth', from 2016 to 2019. Now complete, the first phase has seen us strengthen our core structures and processes, better positioning us to rise to future challenges and seize new market opportunities. 'Selective Growth' will see us focus on key segments that we have identified as strategically important for Mobily. We look forward to working with energy and enthusiasm to deliver on our shareholders' expectations.

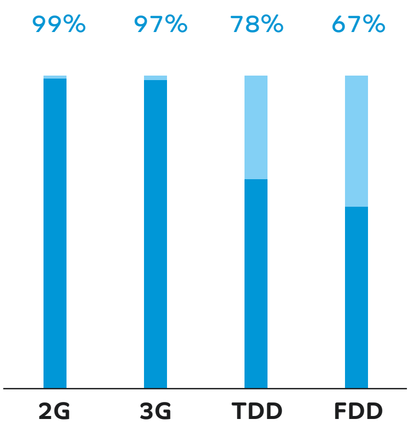
“Our management and Board maintained a strong focus on improving operational efficiency and optimizing costs.”

GEOGRAPHIC FOOTPRINT

Our mobile network services subscribers across Saudi Arabia. More than 99% of the population are covered by our 2G network, 97% by 3G, 78% by TDD and 67% by FDD. Our Metropolitan and FTTH fiber network runs for 24,000 km, meeting the needs of customers in cities across the Kingdom.

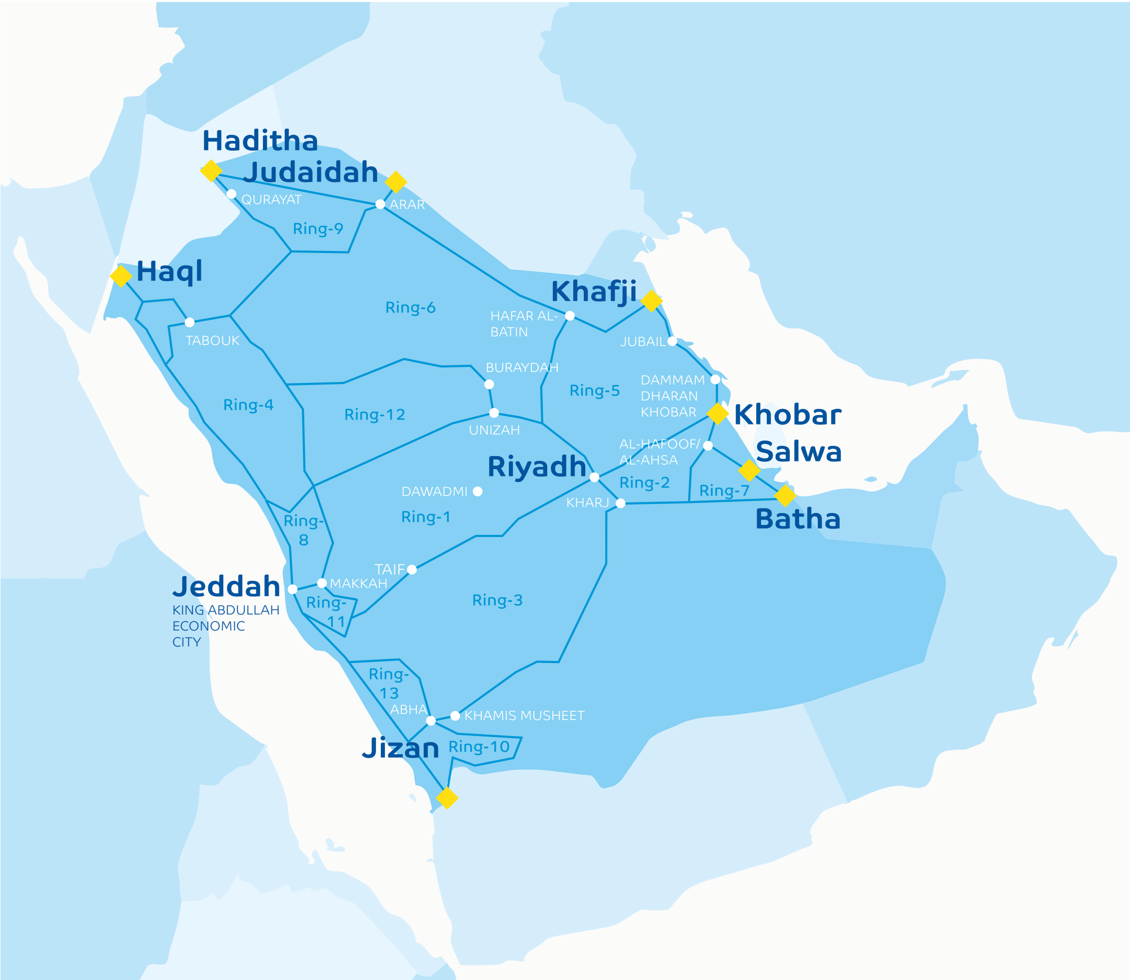
We operate an International Gateway with a wide range of global partners, via both adjacent (overland) cables, and submarine and terrestrial cables. End destinations for the International Gateway include Egypt, Jordan, Iraq, Kuwait, Bahrain, Qatar, Yemen, India, Singapore and the Asia Pacific, the USA and Europe.

Mobily Network Population Coverage



Mobily International Gateway

Mobily National Fiber Network



Key

— Fiber Network Rings

○ FTTH Coverage

◆ Terrestrial Border POI

Retail footprint

400 branches and outlets

6000+ retailers

ACHIEVEMENTS AND AWARDS

January

- UPTIME Institute named Mobily's Al Malqa 2 Data Center as the First Tier IV rated telecom operations center in Saudi Arabia

February

- Mobily was awarded Best Managed Information Security Services at the GIL 2016 Conference
- Mobily signed a partnership with Digital Barriers and Telequalitas to launch Saudi Arabia's first highly secure, zero-latency Video Surveillance as a Service (VSaaS) offering

March

- Mobily won the IBM Beacon Award for Outstanding Infrastructure Services Solutions

July

- Mobily launched its AAE-1 high capacity submarine cable for connectivity with Asia, Africa and Europe

August

- Mobily partnered with Ericsson to double data speed using 4x4 MIMO technology

November

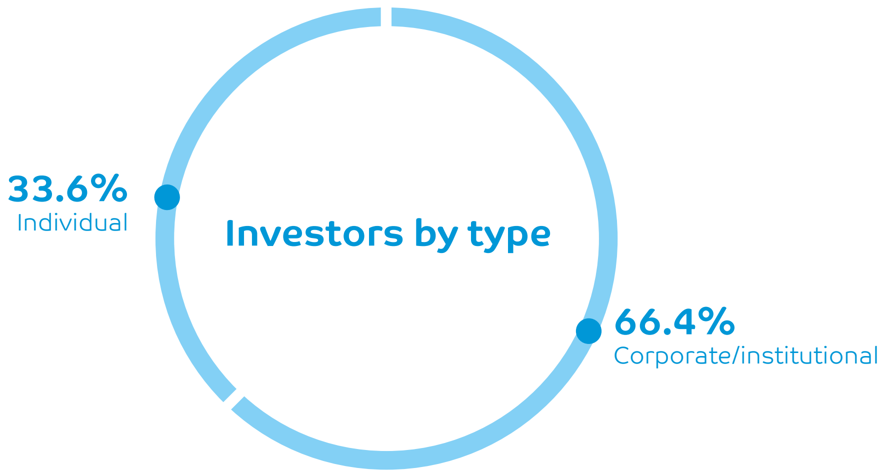
- Mobily was awarded a favorable arbitration settlement following the successful conclusion of its legal dispute with Zain KSA


Mono

SHAREHOLDER INFORMATION AND KEY ANNOUNCEMENTS

Shareholder information

As at 31 December 2016, Mobily had a total of 164,841 shareholders. Corporate/institutional investors represented 66.4% of the total ownership and individual investors represented 33.6%. The following tables give an overview of Mobily's share ownership.

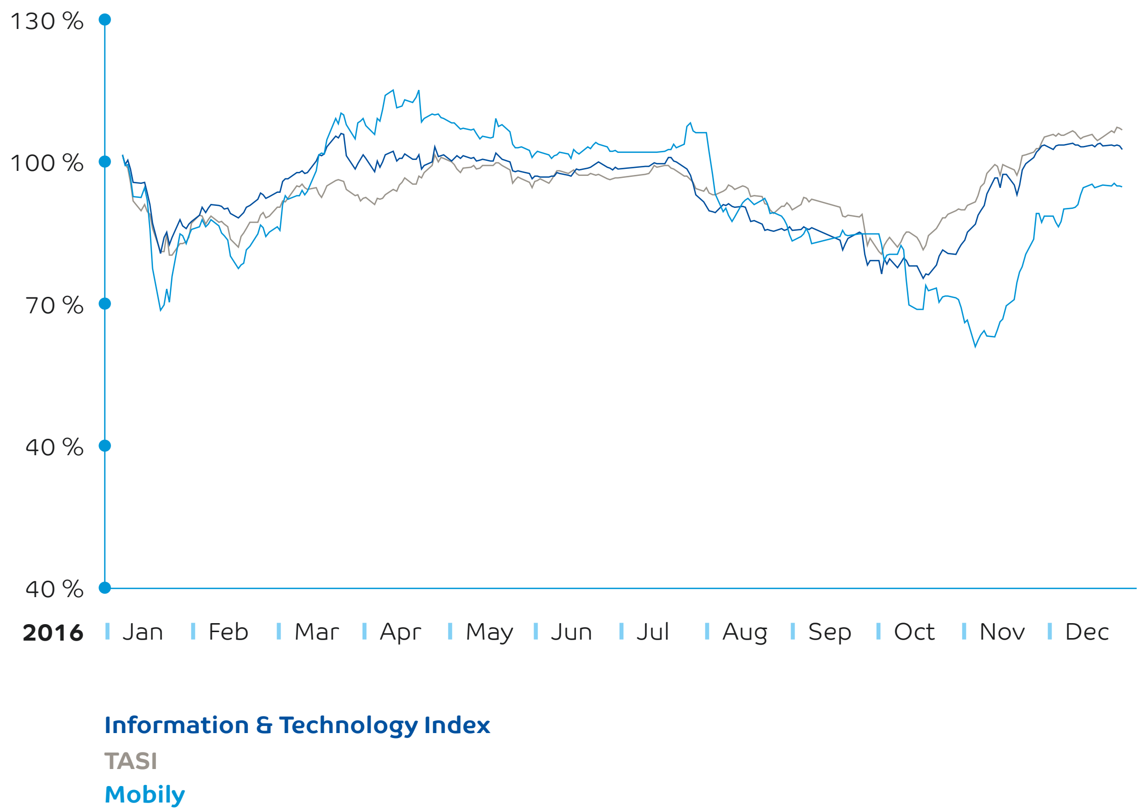


Investor type

	Number of investors	Number of shares held	Ownership percentage
Corporate/institutional	242	511,393,355	66.4%
Individual	164,599	258,606,645	33.6%
Total	**164,841**	**770,000,000**	**100%**
Investor nationality			
Saudi	163,908	537,416,290	69.8%
Other	933	232,583,710	30.2%
Total	**164,841**	**770,000,000**	**100%**

Size of ownership	Number of investors	Ownership percentage
More than 1,000,000 shares	62	75.5%
500,000 – 999,999 shares	49	4.5%
100,000 – 499,999 shares	281	7.3%
50,000 – 99,999 shares	234	2%
10,000 – 49,999 shares	1,921	4.9%
5,000 – 9,999 shares	1,759	1.5%
1,000 – 4,999 shares	7,994	2.2%
Fewer than 1,000 shares	152,541	2.1%
Total	**164,841**	**100%**

Mobily's share price ended 2016 lower than it began the year, but performed strongly against the Telecommunication & Information Technology Index and the Tadawul All Shares Index (TASI) in the second and third quarters of 2016. The graph shows the performance of Mobily shares against these indices:



Key announcements

Mobily concluded the final agreement to waive the default under all its credit facilities (17 May 2016)

Mobily announced that it had reached an agreement with the remaining Saudi banks, the international banks and the export credit agencies (ECAs) to waive the default related to the breach of leverage covenant in connection with the ECA facilities and the remaining facilities. As a result, Mobily has now reached an agreement with all of its creditors to waive all defaults under its debt facilities.

Following arbitration related to the service agreement signed with Zain KSA, the final ruling in favor of Mobily amounted to SAR 219 million (13 November 2016)

Regarding the dispute between Mobily and Zain KSA in relation to the amounts due by Zain to Mobily in consideration of the services provided by Mobily, the Company received an arbitral award of SAR 219,464,509, which ended the dispute. The award is final and binding on both parties.

Mobily announced the signature of a bilateral Credit Facility Agreement of SAR 2 billion with Alinma Bank (20 December 2016)

Mobily successfully signed a SAR 2 billion bilateral Credit Facility Agreement with Alinma Bank, in the form of a Bai Ajel Agreement with a 10 year maturity. The proceeds of the facility are used to fund existing and future operating and capital expenditure. The success of the agreement is a demonstration of the banking community's confidence in the Company.

Mobily announced developments relating to its management agreement with Etisalat Group (25 December 2016)

Mobily announced that its management agreement with Etisalat Group expired on 23 December 2016.

Mobily and Etisalat Group worked during the end of 2016 on developing a service and technical support agreement, which will take into consideration Mobily's requirements based on the scale of its operations and customer base. Mobily expressed appreciation to Etisalat Group for its support since the Company's foundation, emphasizing the importance of ongoing cooperation for serving the interests of the shareholders of both companies.

CEO’S MESSAGE

Ahmad Farroukh, Chief Executive Officer

“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. ”

CFO'S REVIEW

Kais Ben Hamida, Chief Financial Officer

"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.

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

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.

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.

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."

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 Boosting data profitability Leveraging customer experience	Stimulating FTTH uptake in coverage areas Enhancing sales, system and execution capabilities	Implementing effective CAPEX governance Ensuring market and profit driven CAPEX allocation	Optimizing structure; eliminating duplication in systems and processes Improving OPEX management Digitizing customer-facing and internal operations	Building the capabilities of our people Engaging staff and retaining talent

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.

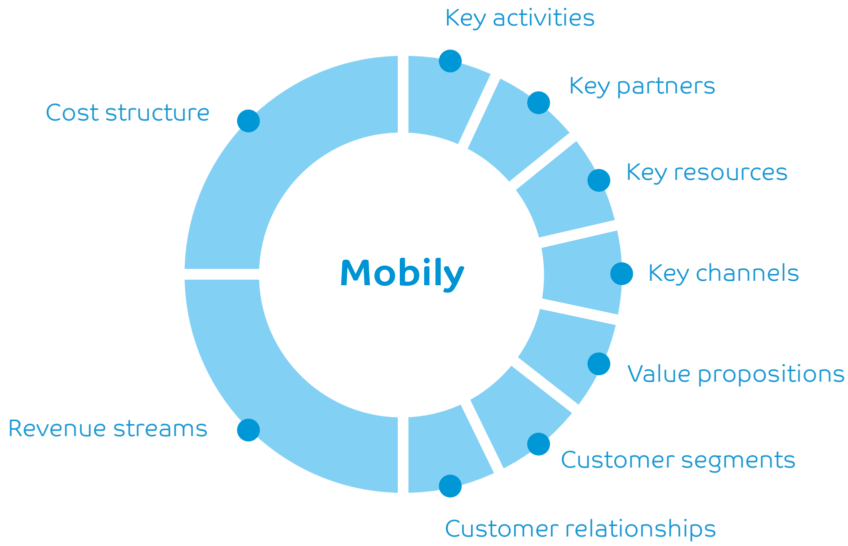
Mobily is working on to supporting the aims of the NTP by growing job opportunities for Saudi men and women, partnering with and supporting the work of relevant public sector bodies, and driving the growth of the Kingdom's digital landscape. The NTP aims to increase the contribution of the IT sector 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.

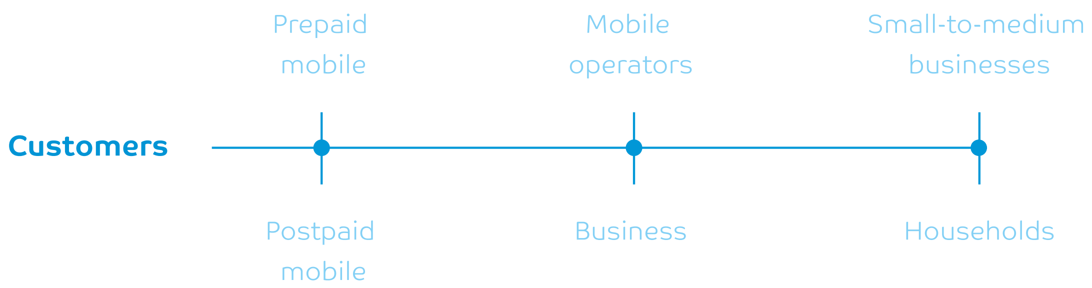
A critical part of both our own and the NTP's strategy is to increase FTTH coverage across the Kingdom – a journey on which we are closely aligned. The CITC has an objective to increase FTTH coverage in densely populated areas from 44% to 80%, and the ongoing expansion of our own fiber network will be 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%.

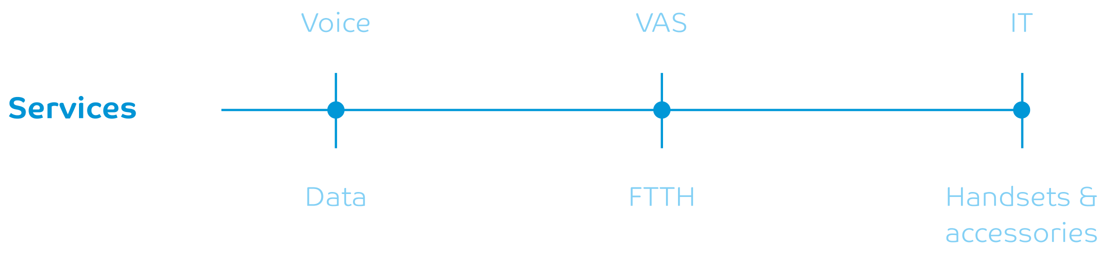
> **"A sophisticated digital infrastructure is integral to today's advanced industrial activities. It attracts investors and enhances the fundamental competitiveness of the Saudi economy."**
>
> Vision 2030

BUSINESS MODEL

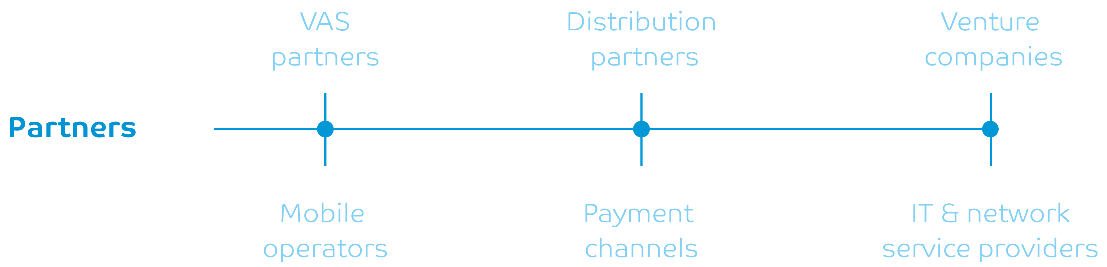


Mobily's key activities are product development, sales, service delivery, network operations, customer support and billing. These activities are supported by two essential resources: our network and our people. We are particularly proud of the value we place on our customer relationships. These relationships 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

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.

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.

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.

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	• Benchmark salaries against the Saudi market • Review and optimize operational costs • Retain talent and employees in critical positions
Performance-Based Rewards	• 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	• Internal hiring process • Leadership development programs • Long service awards program • Spot awards

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.

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.

FINANCIAL REVIEW

Our finance department successfully worked with lenders to regain trust and resolve the issue of the breached covenant. Mobily will continue to work closely with them to deliver on future financing requirements.

Efforts were also made to rationalize CAPEX spending, as part of a broader strategy to make Mobily a more lean and agile organization. Operationally, progress was made towards sustainably decreasing costs and improving efficiency.

Despite market pressure on margins, losses were successfully reduced from SAR 1,093 million in 2015 to SAR 203 million in 2016. 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 the previous year.

SAR '000	2016	2015	% Change
Net profit/(loss)	(203)	(1,093)	81.44%
Earnings/(loss) per share	(0.26)	(1.42)	81.44%
Gross profit/(loss)	7,425	7,958	(6.70%)
Operational profit/(loss)	235	(684)	-
EBITDA	4,009	2,941	36.31%

BALANCE SHEET

As at 31 December 2016, total assets amounted to SAR 41,193 million, while total liabilities amounted to SAR 25,835 million, and shareholders' equity amounted to SAR 15,358 million. Property and equipment represented the majority of assets, amounting to a net book value of SAR 24,406 million. Employees' end-of-service provisions amounted to SAR 282 million.

	As at 31 December	
SAR '000	2016	2015
ASSETS		
Current assets		
Cash and cash equivalents	866,109	497,570
Short-term investments	350,000	1,250,000
Accounts receivable	3,701,340	3,424,090
Due from a related party	69,568	36,508
Inventories	200,072	485,859
Prepaid expenses and other assets	1,698,949	1,722,022
Total current assets	**6,886,038**	**7,416,049**
Non-current assets		
Property and equipment	24,406,393	24,466,197
License acquisition fees	7,520,598	8,026,213
Goodwill	1,466,865	1,466,865
Investments	19,003	19,003
Capital advances	893,816	982,048
Total non-current assets	**34,306,675**	**34,960,326**
TOTAL ASSETS	**41,192,713**	**42,376,375**
LIABILITIES AND EQUITY		
Current liabilities		
Current portion of long-term loans and notes payable	7,607,902	5,766,262
Accounts payable	4,520,036	6,535,866
Due to related parties	138,420	210,970
Accrued expenses and other liabilities	5,631,463	5,476,393
Zakat provision	54,518	77,711
Total current liabilities	**17,952,339**	**18,067,202**
Non-current liabilities		
Long-term loans and notes payable	7,600,851	8,508,553
Provision for end-of-service benefits	281,737	239,854
Total non-current liabilities	**7,882,588**	**8,748,407**
TOTAL LIABILITIES	**25,834,927**	**26,815,609**
EQUITY		
Share capital	7,700,000	7,700,000
Statutory reserve	2,648,971	2,648,971
Retained earnings	5,007,315	5,210,295
Total shareholders' equity	**15,356,286**	**15,559,266**
Non-controlling interest	1,500	1,500
Total equity	**15,357,786**	**15,560,766**
TOTAL LIABILITIES AND EQUITY	**41,192,713**	**42,376,375**

INCOME STATEMENT

Revenues in 2016 amounted to SAR 12,569 million compared to SAR 14,424 million in 2015, representing an annual decrease of 12.9%. Gross profit amounted to SAR 7,425 million compared to SAR 7,958 million in 2015, representing a decrease of 6.7%. Net losses decreased from SAR 1,093 million in 2015 compared to SAR 203 million in 2016.

	For the year ended 31 December	
SAR '000	**2016**	**2015**
Revenues	12,569,397	14,424,125
Cost of services and sales	(5,144,112)	(6,466,037)
Gross profit	**7,425,285**	**7,958,088**
Operating expenses:		
Selling and marketing expenses	(1,272,775)	(1,441,722)
General and administrative expenses	(2,143,091)	(3,574,936)
Depreciation and amortization	(3,774,673)	(3,625,347)
Impairment of goodwill	-	-
Total operating expenses	**(7,190,539)**	**(8,642,005)**
Operating income/(loss)	**234,746**	**(683,917)**
Finance expenses	(556,414)	(361,376)
Other income	75,357	121,145
Net income/(loss) before Zakat	**(246,311)**	**(924,148)**
Zakat	43,331	(168,977)
Net income/(loss) for the year	**(202,980)**	**(1,093,125)**
Earnings/(loss) per share (in SAR) from:		
Income/(loss) from main operations	0.30	(0.89)
Net income/(loss) for the year	(0.26)	(1.42)

CASH FLOW STATEMENT

In 2016 Mobily succeeded in reaching a SAR 2 billion bilateral Credit Facility Agreement. The proceeds of the facility are used to fund the existing and future operating and capital expenditures of the Company. The success of the agreement demonstrates a strong vote of confidence in Mobily by the banking community.

	For the year ended 31 December	
SAR '000	**2016**	**2015**
OPERATING ACTIVITIES		
Net loss for the year	(202,980)	(1,093,125)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation	3,238,407	3,027,700
Amortization of license acquisition fees	536,266	597,647
Provision for doubtful debts	551,692	1,152,042
Finance expenses	556,414	361,376
Gain on sale of investments	-	(5,696)
Provision for inventory obsolescence	20,804	206,396
Provision for end-of-service benefits	68,282	81,045
Zakat provision	(43,331)	168,977
Changes in working capital:		
Accounts receivable	(828,942)	(103,601)
Due from a related party	(33,060)	19,886
Inventories	264,983	125,819
Prepaid expenses and other assets	(137,573)	315,155
Accounts payable	561,704	(109,606)
Due to related parties	(72,550)	65,696
Accrued expenses and other liabilities	156,350	644,160
Finance expenses paid	(515,930)	(350,109)
End-of-service benefits, paid	(26,399)	(41,112)
Zakat paid	(77,125)	(104,583)
Net cash from operating activities	**4,017,012**	**4,958,067**
INVESTING ACTIVITIES		
Purchase of property and equipment	(5,572,956)	(3,515,205)
Disposals of property and equipment	22	5,202
Acquisition of licenses	(30,651)	(58,108)
Disposal of license	-	12,390
Proceeds from sale of an investment	-	11,076
Acquisition of investment	-	(270)
Short-term investment	900,000	(150,000)
Net cash used in investing activities	**(4,703,585)**	**(3,694,915)**
FINANCING ACTIVITIES		
Proceeds from long-term loans	4,137,216	216,406
Payment of long-term loans	(3,082,104)	(2,946,320)
Net cash from/(used in) financing activities	**1,055,112**	**(2,729,914**
Net change in cash and cash equivalents	368,539	(1,466,762)
Cash and cash equivalents, beginning of the year	497,570	1,964,332
Cash and cash equivalents, end of the year	**866,109**	**497,570**
Supplemental non-cash information:		
Property and equipment purchases credited to capital expenditures payable	(2,577,534)	(1,160,457)

BOARD OF DIRECTORS

Suliman Al Gwaiz, Chairman In addition to his role as Chairman of the Board at Mobily, Mr. Al Gwaiz is Governor of the General Organization for Social Insurance (GOSI) and Chairman of Banque Saudi Fransi. He has previously held positions as Deputy Chief Executive Officer at Riyad Bank and Head of Public Sector Business at Saudi American Bank. He was awarded a Bachelors degree in Business Administration from the University of Portland, USA.

Engr. Khalifa Al Shamsi, Board Member and Managing Director Engr. Al Shamsi has been in the telecom, media and ICT industry for over 23 years. During this period he has held various ‘C’ level positions in technical, commercial, strategy, digital services and corporate governance. He is Chief Corporate Governance Officer at Etisalat Group. He is a member of the Board of Directors at Etisalat Afghanistan, PTCL, Ufone, and Chairman of Evision, the UAE-based TV content and multimedia company. He was previously Etisalat Group’s Chief Digital Services Officer and Senior Vice President of Technology & Network Strategy.

Engr. Abdulaziz Al Jomaih, Board Member In addition to his membership of Mobily’s Board of Directors, Engr. Al Jomaih is CEO of International Investments at Al Jomaih Holding Company, and Board Member of a number of other international companies.

Engr. Abdullah Al Issa, Board Member In addition to his membership of Mobily’s Board of Directors, Engr. Al Issa is CEO of A M Alissa Consulting Engineers, also a Chairman and Board Member of a number of other Saudi companies.

Mr. Ali Al Subaihin, Board Member In addition to his role as a Board Member at Mobily, Mr. Al Subaihin is on the Board of Tawuniya for Cooperative Insurance, Alyusr Leasing and Financing Company and Astra Industrial Group, Chairman of Najm Insurance Company, Chairman of WASEEL (Health Insurance Portal), a founding partner of Chedid Reinsurance Brokerage Ltd, and a member of Al Faisal University’s Business Advisory Council (Riyadh). He was previously CEO at Tawuniya for Cooperative Insurance.

Engr. Homood Al Tuwaijri, Board Member Engr. Al Tuwaijri has 30 years of extensive experience in the petrochemicals industry. Prior to joining the Mobily Board of Directors, he was Executive Vice President for Strategic Planning, Finance, Petrochemicals Strategic Business Units Coordination, Supply Chain Management, Corporate Governance & Control at SABIC, and sat on the board of a number of manufacturing, utilities, banking and insurance companies in Saudi Arabia. He was awarded Business & Engineering degrees from the University of Washington in 1980, and a Master's degree in Engineering from the Georgia Institute of Technology in 1983.

Dr. Khaled Al Ghoneim, Board Member Dr. Al Ghoneim is Founder and Chairman of Hawaz Company, having previously held the position of CEO at ELM Information Security Company, and Saudi Telecom Company (STC). He has also had the role of Chairman and CEO of Takamol Business Services Holding Company.

Mr. Mohamed Al Hussaini, Board Member In addition to his role as a Board Member at Mobily, Mr. Al Hussaini sits on the board of several listed entities including Etisalat, Emirates NBD, Emirates Islamic Bank, Dubai Refreshment and Emaar Malls. He has previously held multiple Board memberships, and has professional experience in banking/finance, real estate and investment.

Engr. Saleh Al Abdooli, Board Member In addition to his role as Board member of Mobily, Engr. Al Abdooli is CEO of Etisalat Group UAE, Deputy Chairman and Chairman of the Executive Committee of Etisalat Misr, Chairman of Etisalat Services Holding and Chairman of Thuraya Telecommunications Company.

Mr. Serkan Okandan, Board Member Mr. Okandan has been CFO of Etisalat Group since 2012, representing Etisalat as a Board Member for its operations in Pakistan, Morocco, Saudi Arabia and Nigeria. He is Audit Committee Chairman at Pakistan Telecommunications Company Ltd and a member of the Audit Committee of both Maroc Telecom and Mobily. He was previously Deputy CEO of Mobily.

Board of Directors' membership of other Joint Stock Companies

Name	Membership of other Joint Stock Companies
Suliman Al Gwaiz	Banque Saudi Fransi Saudi Industrial Investment Group Maaden
Khalifa Hassan Al Shamsi	Etisalat Afghanistan PTCL Ufone E-Vision iMENA
Abdullah Mohammad Al Issa	Dur Hospitality Maaden SABIC Riyad Bank
Ahmed Abdulkarim Julfar*	Maroc Telecom Etisalat Misr
Ali Abdulrahman Al Subaihin	Tawuniya Insurance Astra Industrial Group Alyusr Leasing and Financing Company Najm for Insurance Services
Homood Abdullah Al Tuwaijri	Alinma Bank Tawuniya Insurance Tabuk Cement Company
Khaled Abdulaziz Al Ghoneim	National Water Company
Mohamed Hadi Al Hussaini	Etisalat UAE Emirates NBD Emirates Islamic Bank Dubai Refreshments Emaar Malls
Saleh Al Abdooli	Etisalat Services Holding Maroc Telecom Thuraya Telecommunications Company Etisalat Misr
Serkan Sabri Okandan	Etisalat Nigeria PTCL Ufone Maroc Telecom Etisalat Services Holding

*Resigned as a Member of the Board of Directors in 2016

MOBILY'S FORMATION AND PRINCIPAL ACTIVITIES

Etihad Etisalat Company ("the Company"/"Mobily") is incorporated as a Saudi Joint Stock Company pursuant to the Council of Ministers resolution number 189, dated 10 August 2004 (corresponding to 23 Jumada II 1425H), and approved by Royal Decree number M/40 dated 18 August 2004 (corresponding to 2 Rajab 1425H). The Company is listed under commercial registration number 1010203896, issued in Riyadh, Saudi Arabia, on 14 December 2004. Mobily was awarded the second license to provide mobile wireless telecommunication services in Saudi Arabia, and launched its commercial operations on 25 May 2005. The Company's capital is SAR 7.7 billion, divided into 770 million shares at a value of SAR 10.00 per share, paid fully at 31 December 2016.

Mobily's principal activity is to establish and operate a mobile wireless telecommunications network, a fiber optics network and its extensions, to manage, install and operate telephone networks, terminals and telecommunication unit systems, as well as to sell and maintain mobile phones and telecommunication units in the Kingdom of Saudi Arabia.

The main activities of Mobily's subsidiaries include:

- To develop IT software for use by the Company and to provide technical IT support.
- To execute contracts related to installing and maintaining wired and wireless networks, installing computer systems, and providing data services.
- Wholesale and retail trade in computers and electronics, their maintenance and operation, and the provision of related services.
- Provision of TV channel services over internet protocol (IPTV).
- To establish, manage, operate and invest in service-oriented and industrial projects.
- To establish, operate and maintain telecommunication and computer networks and relevant services to build, maintain and operate computer software, as well as to import, export and sell equipment, hardware and software of telecom and computer systems.
- To establish and acquire businesses specialized in commercial activities, including those activities conducted by the founders.
- To manage subsidiaries or participate in managing other companies in which they own a share, and to provide support to such companies.

- To invest in stocks, bonds and securities.
- To acquire property and assets as deemed necessary for operations within the boundaries of the law.
- To acquire or lease intellectual property rights, including patents, trademarks, concessions and other intangible assets and to use and lease these rights in whole or in part to affiliates or to third parties.
- To have interest in or participate in entities that carry out similar activities or that have the potential to cooperate towards the achievement of the Company's goals in the Kingdom of Saudi Arabia and abroad, and to attempt the acquisition of said entities or merge with them.
- To undertake all processes and services related to the fulfillment of the above mentioned objectives.

INFORMATION ABOUT SUBSIDIARIES

The following table shows Mobily's subsidiaries, their countries of incorporation and Mobily's percentage of ownership as at 31 December 2016:

Subsidiary	Country of incorporation/ operation	Capital (SAR)	Ownership percentage	
			Direct	Indirect
Mobily InfoTech India Pvt. Ltd.	India	1,836,000	99.99%	0.01%
Bayanat Al-Oula for Network Services Company	KSA	150,000,000	99%	1%
Zajil International Network for Telecommunications Company	KSA	10,000,000	96%	4%
National Company for Business Solutions	KSA	10,000,000	95%	5%
Mobily Plug & Play Ltd.	KSA	3,750,000	60%	0%
Sehati for Information Services Company	KSA	1,000,000	90%	10%
Mobily Ventures Holding	Bahrain	2,510,000	100%	0%
National Company for Business Solutions FZE	UAE	183,829	0	100%

Mobily InfoTech India Pvt. Ltd.

In 2007, Mobily invested in 99.99% of the capital of its subsidiary Mobily InfoTech Limited, based in Bangalore, India, commencing commercial operations in 2008. In early 2009, another subsidiary, the National Company for Business Solutions (formerly known as Etihad Etisalat for Commercial Investment Co.) acquired the remaining 0.01% of Mobily InfoTech's capital. Mobily InfoTech's main activity is to develop software and provide technical IT support. It is considered a cost center.

Bayanat Al-Oula for Network Services Company

In 2008, Mobily acquired 99% of the partners' shares in Bayanat Al-Oula for Network Services Company; a Saudi limited liability company. The acquisition included all of Bayanat's rights, assets, obligations, and commercial name as well as its current and future trademarks, for a total price of SAR 1.5 billion. This resulted in goodwill worth SAR 1.466 billion as of the acquisition date. The main activity of Bayanat Al-Oula is to execute wired and wireless telecom network maintenance contracts, install and maintain related computer systems and provide data services. The subsidiary's contribution to revenues was SAR 1.668 billion.

Zajil International Network for Telecommunications Company

In 2008, Mobily acquired 96% of the partners' shares in Zajil International Network for Telecommunications Company, a Saudi limited liability company. The acquisition included all of Zajil's rights, assets, obligations, and commercial name as well as its current and future trademarks, for a total price of SAR 80 million. This resulted in goodwill worth SAR 63 million as of the acquisition date. Zajil's main activity is wholesale and retail trade in computers and electronics, their maintenance and operation, and the provision of related services.

National Company for Business Solutions

In 2008, Mobily invested in 95% of the SAR 10 million capital of its subsidiary National Company for Business Solutions (formerly known as Etihad Etisalat for Commercial Investment Co.); a Saudi limited liability company. In 2010, the company's shareholders resolved to change its name from Etihad Etisalat for Commercial Investment to National Company for Business Solutions. Its main activites are wholesale and retail trade in equipment and machinery, electronics and electrical devices, as well as wired and wireless telecom devices, the import and export of such equipment to third parties, marketing and distribution of telecom services, and provision of telecoms consultancy services. The National Company for Business Solutions' contribution to the Company's revenues amounted to SAR 66 million.

Mobily Plug & Play Limited

During the first quarter of 2014, Mobily finalized the legal requirements pertaining to its investment in 60% of its subsidiary, Mobily Plug & Play, a Saudi limited liability company with a capital of SAR 3.75 million. The remaining 40% of the subsidiary's capital is owned by Plug & Play International, based in the USA. The main activity of Mobily Plug & Play is to identify investment opportunities in IT companies based abroad, and the potential for bringing such businesses to Saudi Arabia.

Sehati for Information Services Company

During 2014, Mobily finalized the legal requirements pertaining to its investment in 90% of its subsidiary, Sehati for Information Services Company, a Saudi limited liability company with a capital of SAR 1 million. The remaining 10% of Sehati's capital is owned by another of Mobily's subsidiaries, Bayanat Al-Oula for Network Services Company. Sehati's main activities are to establish, operate and maintain telecommunication and computer networks and relevant services, and to build, maintain and operate computer software, as well as to import, export and sell equipment, hardware and software of telecom and computer systems. This subsidiary does not contribute to the Company's revenues.

Mobily Ventures Holding SPC

In 2014, Mobily finalized the legal requirements pertaining to investment in the subsidiary Mobily Ventures Holding, a Bahraini single person company owned wholly by Mobily with a capital of SAR 2.5 million. The subsidiary's main activity is to invest in internet and IT start-ups against a shareholding in the subsidiary. It does not contribute to the Company's revenues.

National Company for Business Solutions FZE

During 2014, National Company for Business Solutions, a subsidiary, finalized legal requirements pertaining to investment in another subsidiary, National Company for Business Solutions FZE, which is a UAE-based single person company owned wholly by National Company for Business Solutions and has a capital of SAR 184,000. Its main activity is to provide technical support and call center services to companies in the UAE. It does not contribute to the Company's revenues.

IMPORTANT EVENTS

Mobily credit facilities

In 2016, Mobily reached a final agreement with Saudi and international banks, as well as export credit agencies (ECAs), under which it was agreed to waive the Company's breach of provisions related to the debt to EBITDA ratio.

MoU with STC to explore options on telecom towers

A memorandum of understanding between Mobily and Saudi Telecom Company (STC) was signed on 31 July 2016, under which the two companies will work together to explore options for extracting value from co-owned telecom towers, in order to reduce the capital and operational expenses of their towers across the Kingdom. The MoU, originally valid for three months, has been automatically extended. Financial expenses related to these discussions in 2016 are negligible.

Extension of existing license for a further 15 years, and negotiations regarding obtainment of a unified license

Pursuant to the Communications & Information Technology Commission's (CITC) resolution issued on 1 October 2016 (corresponding to 30-12-1437H), which allows licensed telecom operators to: (a) extend their existing licenses for a further 15 years in return for 5% of their annual net profits throughout the extension period, and (b) to obtain a unified license that enables them to offer all telecom services; Mobily extended its license and is in negotiations with CITC to obtain the unified license.

The Company said obtaining the unified license is likely to improve Mobily's competitive standing in the Saudi market, as it will be able to offer a comprehensive suite of telecom services including voice and triple play services. Mobily also said extending its license will provide a clearer, more consistent vision for its future operations.

The license extension is expected to have a positive impact on the Company's financial statements, estimated at SAR 260 million.

Favorable arbitration ruling for Mobily in its service agreement dispute with Zain KSA, resulting in a settlement of SAR 219 million

A final verdict was issued on the dispute between Mobily and Mobile Telecommunication Company Saudi Arabia (Zain KSA), in relation to the claims due to Mobily in return for its services to Zain. Mobily stated that on Thursday 10 November 2016 it had received the arbitration panel's final verdict, allocating the Company the amount of SAR 219,464,509. This verdict is final and binding on both parties. Mobily therefore took the necessary action to collect the payment from Zain.

End of management agreement with Emirates Telecommunications Corporation (Etisalat Group) and development of a new service and technical support agreement

Mobily and Etisalat Group's management agreement ended on 23 December 2016.

Both parties have started working together to develop a new service and technical support agreement that would better suit Mobily's requirements during the next phase of its growth, and align with the best interests of the Company and its shareholders.

FORWARD LOOKING STATEMENTS

The Kingdom of Saudi Arabia recently announced its budget for 2017, which showed a spending increase of 8% over 2016 spending levels. This comes after two years of regression due to falling oil prices. This fiscal policy is likely to lead to further growth reflected in GDP by 2% during 2017, compared to 1.4% GDP growth in 2016.

2017 is also expected to be an important year for kick-starting the National Transformation Plan. The proposed spending of its programs in the 2017 budget have increased four-fold to SAR 42 billion (compared to SAR 9 billion in 2016). This is likely to boost the contribution of the private sector to the Saudi economy.

In the telecommunications sector, the CITC decision, which allows licensed telecom operators in the Kingdom to obtain a unified license that enables them to offer all telecom services, was an important element that is set to improve competitiveness across the sector. It will present Mobily with more opportunities, as it will be able to offer a comprehensive suite of telecom services and value-added solutions. Mobily also believes that the extension of its license will help provide a clearer, more consistent vision for its future operations.

In the coming year, Mobily aims to build on the achievements of 2016, and to finalize all the arrangements to ensure its financial stability through agreements with creditors. The Company will focus on maintaining and growing its market share and intensifying efforts to boost revenues from business, corporate and government subscribers. This process will be supported by a strengthened network infrastructure.

While rapid changes in technology are considered a key challenge facing telecom operators, if approached constructively such changes are at the same time an important motivator and opportunity. Mobily's view is that it should focus on using its expertise to optimize the management of variables and developments in the sector for the benefit of subscribers and shareholders.

RISKS

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's cash is placed with banks with sound credit ratings while the Company regularly updates its cash flow and, where appropriate, places any excess cash in short-term investments. The Company has two major customers representing 31% of total accounts receivable as at 31 December 2016 (34% as at 31 December 2015). The rest of the balances do not have a significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Company continues to review its credit policy in line with developments in its liquidity risk.

Credit assessments are made to check the credit worthiness of major customers prior to signing contracts or accepting their purchase orders. Accounts receivable are carried net of provision for doubtful debts.

The credit quality of financial assets that are neither past due nor impaired are assessed by reference to customers with an appropriate and strong credit history, with minimal account defaults and where the receivables are fully recovered in the past. The Company records provision for impairment of accounts receivable that are assessed to have a significant probability of becoming uncollectable and considering historical write-offs. Credit and Collection Operations provide inputs on the ageing of financial assets on a periodic basis.

Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals and US Dollars, and the Company closely and continuously monitors exchange rate fluctuations. Based on its experience, the Company does not believe it is necessary to hedge the effect of foreign exchange risks, as most transactions are in Saudi Riyals and US Dollars.

Fair value and cash flow commission rate risk

Fair value and cash flow commission rate risks are exposures to various risks associated with the effect of fluctuations in prevailing commission rates on the Company's financial position and cash flows. The Company's exposure to market risk for changes in commission rates relates primarily to the Company's borrowings, which were acquired to finance working capital requirements and capital expenditures. These borrowings are re-priced on a periodic basis and expose the Company to cash flow commission rate risk. The Company's practice is to manage its commission cost through optimizing available cash and minimizing borrowings. When borrowing is necessary, the tenor of borrowings is matched against expected receipts. There is regular review of commission rates to ensure that the impact of such risk is mitigated.

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 closely and continuously monitors liquidity risk by performing regular review of available funds, to meet present and future commitments, and operating and capital expenditure. Moreover, the Company monitors actual cash flows and matches the maturity dates of its financial assets and its financial liabilities.

Price risk

The Company is not exposed to equity securities price risk as it does not currently have significant investments in equity securities, at 31 December 2016.

Regulatory risk

The Company operates in a regulated environment. This leads to certain regulatory risks; in particular, the way of calculating government fees in a retroactive effect.

BOARD OF DIRECTORS COMMITTEES

Audit Committee

Pursuant to Board Resolution No. BOD/2/2015-11/80 on 23 November 2015, the Audit Committee was formed with Mr. Ibrahim bin Mohammad Al Saif as Head of the Committee and Mr. Mohamed Hadi Al Hussaini (non-executive Board Member), Mr. Jamil Al Melhem (independent Committee member), Mr. Homood bin Abdullah Al Tuwaijri (independent Board Member) and Mr. Serkan Okandan (non-executive Board Member) as members.

The Committee held a total of seven meetings during 2016, which were attended by all members except for the absence of Mr. Jamil Al Melhem from the meeting held on 18 October 2016, where he delegated Mr. Ibrahim Al Saif, Head of the Committee, to attend on his behalf.

Roles and responsibilities:

- Supervises the Company's internal auditors to ensure their efficiency in carrying out their duties as set by the Board of Directors.
- Reviews the Company's system of internal controls, prepares a written report of its feedback and recommendations regarding the system.
- Reviews internal audit reports and monitors modification and corrections in said reports.
- Recommends to the Board of Directors the appointment and discharge of certified accountants and determines their remuneration.
- The Committee is responsible for ensuring accountants' independence upon recommending their appointment.
- Oversees the performance of certified accountants and approves any additional tasks assigned to them, other than auditing tasks.
- Reviews the audit plan with the certified accountants and provides feedback.
- Reviews certified accountants' notes and observations on financial statements.
- Reviews interim and annual financial statements before they are submitted to the Board of Directors, and offers feedback and recommendations.
- Reviews the current accounting policies and offers feedback and recommendations to the Board in this regard.

In its meeting held on 17 January 2013, the Board of Directors ensured inclusion of the Audit Committee's responsibilities in the regulatory requirements as stipulated in section "C" of Article 14 of the Corporate Governance Regulations. The Committee exercises its delegated powers for the duration of the Board of Directors' term, and is dissolved when their term ends. The Committee's regulations cover the controls that ensure regular follow-up on its duties, including the Committee's meetings and recommendations and the process of notifying the Board.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is chaired by Dr. Khaled Al Ghoneim. Members include Engineer Khalifa bin Hassan Al Shamsi (Managing Director) and Mr. Abdulaziz Al Jomaih. The committee held three meetings during 2016, during which it discussed several issues related to its scope of work, and made recommendations in that regard.

Roles and responsibilities:

- Give recommendations to the Board of Directors regarding nominated members in accordance with approved policies and criteria, ensuring that nominees have not been charged with any crimes against honor and integrity.
- Annually review the Board's requirements and prepare a description of qualifications and capabilities required in nominees for Board membership.
- Review the Board's structure and give recommendations on proposed changes.
- Determine the strengths and weaknesses of the Board of Directors and propose solutions that align with the Company's best interests.
- Annually examine and ensure independence of independent Board Directors, and the absence of any conflict of interests if a Director is at the same time a member of another company's Board of Directors.
- Develop clear policies outlining the remuneration and rewards of Board members and senior executives. These policies should be based on performance-related criteria.
- The committee exercises its delegated powers for the duration of the Board of Directors' term, and is dissolved when their term ends. The committee's recommendations are submitted to the Board, in order for it to take suitable action.

Risk Committee

The Risk Committee is formed of the following: Mr. Homoud Al Tuwaijri (Chairman of the Committee, and independent Board member), Mr. Abdulrahman Saleh Al Subaihin (independent Board member), Engr. Khalifa bin Hassan Al Shamsi (Managing Director) and Mr. Serkan Okandan (non-executive Board member).

The Committee held quarterly meetings. Three (3) meetings were held during 2016, in the presence of all members, except Mr. Serkan Okandan who only attended two meetings, after the Board of Directors' decision to appoint him as a member of the Committee following the first meeting of the Committe in 2016.

Among the responsibilities of the Risk Committee are the review and evaluation of the safety and efficiency of risk management within the Company, monitoring the implementation of strategy and the risk management framework, as well as reviewing tolerance levels and risk limits, related reports and the necessary procedures applied to reduce risks that occur. In addition, the Committee ensures assessment of the extent of risk exposure to ensure that the Company will not be affected, by comparing the total size of the exposure to risk with the acceptable limits of risk according to the Committee's existing strategy and the framework.

The Committee's assignment lasts throughout the duration of the Board of Directors, and expires at the end of its period. The regulations of the Committee include controls to enable the Board to routinely follow-up on its work and to verify actions assigned to it. These include Committee meetings, recommendations, and how to notify the Board of Directors with such recommendations.

Executive Committee

According to the Company's by-laws, a committee derived from the Board of Directors should be formed under the name of 'Executive Committee'. This Executive Committee consists of the Chairman of the Board, Mr. Suliman Al Gwaiz (who is also Chairman of the Committee), and the members are: Engr. Saleh Al Abdooli, Engr. Khalifa Al Shamsi (Managing Director) and Engr. Abdullah Al Issa.

The Committee generally works to assist the Board and to ease the burdens and responsibilities entrusted to it, providing this does not interfere with scope of other Committees. The scope of its responsibilities was approved by the Board in its meeting held on 23 October 2016.

During 2016, the Committee held two meetings, in addition to discussing and considering important issues and decisions. The Committee will seek to perform a more prominent role in 2017, studying and taking decisions on matters related to its scope, as well as other tasks delegated by the Board. The tasks entrusted to the Committee include:

1. Exercise of powers entrusted by the Board, to manage and direct the business of the Company, except as excluded.
2. Follow-up on the Company's strategic plans for the long-, medium- and short-term and revise them from time to time; recommend to the Board of Directors any update or modification when deemed necessary.
3. Act as a guide for the Company's management on emerging issues and investment opportunities.
4. Review fundamental legal issues and emerging lawsuits.
5. Approve the appointment of advisory bodies in case the appointment exceeds the management's limit as per the devolution of powers.
6. File reports to the Board of Directors regarding decisions or procedures taken by the Committee, which require the approval of the Board or are delegated by the Board.

SUMMARY OF ASSETS, LIABILITIES AND BUSINESS RESULTS

The following table summarizes the consolidated balance sheet at 31 December 2016, 2015, 2014, 2013 and 2012.

Consolidated balance sheet (SAR million)

Consolidated	2016	2015	2014	2013	2012
Current assets	6,886	7,416	12,502	14,720	10,100
Non-current assets	34,307	34,960	34,142	30,768	28,197
Total assets	**41,193**	**42,376**	**46,644**	**45,488**	**38,297**
Current liabilities	17,952	18,067	29,790	13,697	9,748
Non-current liabilities	7,883	8,748	200	10,675	7,643
Total liabilities	**25,835**	**26,816**	**29,990**	**24,372**	**17,391**
Shareholders' equity	15,358	15,561	16,654	21,116	20,906
Total liabilities and shareholders' equity	**41,193**	**42,376**	**46,644**	**45,488**	**38,297**

At 31 December 2016, total assets amounted to SAR 41,193 million, while total liabilities amounted to SAR 25,835 million and shareholders' equity amounted to SAR 15,358 million.

Property and equipment represented the majority of assets, amounting to a net book value of SAR 24,406 million, while the majority of liabilities consisted of loans and notes payable totaling SAR 15,209 million. These have been used to establish and operate the Company's infrastructure, in addition to working capital requirements. Employees' end-of-service provisions amounted to SAR 282 million at 31 December 2016.

The following table shows consolidated operating income for the year ended 31 December 2016, 2015, 2014, 2013 and 2012.

Consolidated operating income (SAR million)

Consolidated	2016	2015	2014	2013	2012
Usage	9,875	11,550	10,409	14,446	17,093
Activation and subscription fees	1,868	1,893	2,654	1,771	1,232
Other services	826	981	941	1,886	1,457
Total revenues	**12,569**	**14,424**	**14,004**	**18,103**	**19,782**

The following table shows consolidated income for the year ended 31 December 2016, 2015, 2014, 2013 and 2012.

Consolidated income statement (SAR million)

Consolidated	2016	2015	2014	2013	2012	Change Value 2015-2016	Change % 2015-2016
Revenues	12,569	14,424	14,004	18,103	19,782	(1,855)	(13%)
Cost of revenues	(5,144)	(6,466)	(7,225)	(6,896)	(7,805)	1,322	(20%)
Gross Profit	**7,425**	**7,958**	**6,779**	**11,207**	**11,977**	**(533)**	**(7%)**
Selling and marketing expenses	(1,273)	(1,442)	(1,843)	(1,533)	(1,398)	169	(12%)
General and administrative expenses	(2,143)	(3,575)	(2,689)	(2,209)	(2,045)	1,432	(40%)
Depreciation and amortization	(3,775)	(3,625)	(3,533)	(2,760)	(2,399)	(149)	4%
Amortization of goodwill	-	-	(63)	-	-	-	-
Operational income	**235**	**(684)**	**(1,349)**	**4,705**	**6,135**	**919**	**N/A**
Financing expenses	(556)	(361)	(269)	(191)	(169)	(195)	54%
Other income	75	121	84	257	122	(46)	38%
Zakat	43	(169)	(41)	(79)	(70)	212	N/A
Net (loss)/profit	**(203)**	**(1,093)**	**(1,576)**	**4,692**	**6,018**	**890**	**81%**

- Gross profits fell from SAR 7,958 million in 2015 to SAR 7,425 million in 2016, representing a 7% decline, mainly due to lower revenues.
- Revenues amounted to SAR 12,569 million in 2016, down 13% from revenues recorded in 2015 at SAR 14,424 million.

This is mainly due to the following reasons:

  a. Sales slowdown and decline of subscriber base resulting from the implementation of biometric registration for subscription and service eligibility.
  b. Lower revenues from interconnection due to the reduction of mobile termination rates in April 2016.
  c. Decline in handset sales.

- EBITDA amounted to SAR 4,009 million in 2016, compared to SAR 2,941 million in 2015. The EBITDA margin for the 12-month period of 2016 rose to 31.9% compared to 20.4% for the same period of 2015.
- Net losses for 2016 totaled SAR 203 million, a significant improvement of 81% compared to SAR 1,093 million in net losses recorded in 2015. This is mainly due to:
  a. A decline of SAR 1,432 million in general and administrative expenses, resulting from an additional provision of doubtful debts owed by Zain KSA for the same period of 2015, amounting to SAR 800 million, in addition to a significant reduction in certain expenses and recorded savings in other expenses. Accruals were also reflected in this result.
  b. A decline of SAR 169 million in selling and marketing expenses.

The impact of the aforementioned reductions was offset by:

  a. A decline of SAR 533 million in gross profit.
  b. An increase of SAR 149 million in depreciation expenses.

DIVIDEND POLICY

Article 42 of the Company's Articles of Association states that the annual net profit of the Company shall be distributed after the deduction of overheads and other costs, including shareholders' loans and Zakat, as follows:

- 10% of the net profit to be put aside to form a statutory reserve. The Ordinary General Assembly shall discontinue the deduction for the statutory reserve when such reserve reaches half of the Company's capital.
- The Ordinary General Assembly may, upon the recommendation of the Board of Directors, set aside a percentage from the net profit to form an adequate reserve to be allocated for certain purposes.
- Payment of dividends to the shareholders.

On 23 July 2011, Mobily announced the implementation of the following dividend distribution policy:

- Mobily puts shareholders' interests at the top of its priorities.
- The dividend distribution policy aims to meet shareholders' expectations, while taking into account the Company's performance and future investments.
- The Company intends to apply an increasing dividend policy, when possible, whereby the distributed annual dividends are always higher than the previous year.

On 11 March 2012, the General Assembly approved the recommendation made by the Board of Directors, under which the Board was authorized to distribute quarterly dividends as of the fiscal year 2012.

The Board of Directors considers reducing debts as a management priority that would provide additional flexibility to dividends in the medium- and long-run.

INTERESTS OF BOARD MEMBERS AND THEIR RELATIVES

Name	Membership type	No. of shares at start of 2016	No. of shares at end of 2016
Suliman Al Gwaiz	Chairmain/Non-executive	14,094	14,094
Khalifa Al Shamsi**	Non-executive	-	-
Abdulaziz Al Jomaih	Independent	8,322	8,322
Abdullah Al Issa	Independent	34,600	34,600
Ahmed Julfar*	Non-executive	1,540	-
Ali Al Subaihin	Independent	26,600	21,600
Homood Al Tuwaijri	Independent	200,500	200,500
Khaled Al Ghoneim	Independent	36,000	36,000
Mohamed Al Hussaini**	Non-executive	-	-
Saleh Al Abdooli**	Non-executive	-	-
Serkan Okandan**	Non-executive	-	-

*Membership ended before 2016
**Qualification shares deposited in the Emirates Telecommunications Corporation (Etisalat) portfolio

INTERESTS OF SENIOR EXECUTIVES AND THEIR RELATIVES

Name	Position	No. of shares at start of 2016	No. of shares at end of 2016
Abdulaziz Al Angari	CFO for NCBS	1,000	1,000
Tareq Khalid Alangari	Executive General Manager Investor Relations	55	55
Essam O. Aljubair	Senior Executive Officer Business Support	10,688	10,688
Ayed Y. Alharthi	Director Financial Accounting	27	27

LOANS

Loans and notes payable (SAR)

	2016	2015
Loans and notes payable	15,208,753	14,274,815
Less: current portion	(7,607,902)	(5,766,262)
Non-current	7,600,851	8,508,552

At 31 December 2016, the total value of loans and notes payable increased resulting from utilization of ECAs and the securing of a long-term financing deal with Alinma Bank.

Details of loans and notes payable maturity (SAR)

	2016	2015
Less than one year	7,607,902	5,766,262
1-5 years	6,488,851	8,508,552
More than 5 years	1,112,000	-
	15,208,753	14,274,815

Details of long-term loans and notes payable as at 31 December 2016

Lender	Borrowing company	Loan nature	Borrowing purpose	Date issued	Currency	Principal amount	Utilized amount
Local banks	Mobily	Long-term refinancing facility agreement; Shari'a compliant	Settling outstanding loan balances previously obtained by Etihad Etisalat, and financing the Company's capital expenditures and working capital requirements	Q1 2012	Saudi Riyal	SAR 10 billion	SAR 10 billion
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN)	Mobily	Long-term refinancing facility agreement; Shari'a compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance infrastructure capabilities, introduce new technologies and strengthen the Company's competitiveness in the Business segment	Q3 2013	US Dollar	USD 644 million (SAR 2.4 billion)	USD 512 million (SAR 1,920 million)
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN)	Mobily	Long-term refinancing facility agreement; Shari'a compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the Business segment	Q1 2014	US Dollar	USD 451 million (SAR 1.691 billion)	USD 174 million (SAR 652 million)
Saudi Investment Bank	Mobily	Long-term refinancing facility agreement; Shari'a compliant	Financing the Company's working capital requirements	Q1 2014	Saudi Riyal	SAR 1.5 billion	SAR 1.5 billion
CISCO Systems International	Mobily	Vendor financing agreement	Acquiring CISCO equipment and systems	Q1 2014	US Dollar	USD 135 million (SAR 506.8 million)	USD 93.69 million (SAR 351.34 million)
Export Development of Canada (EDC)	Mobily	Long-term refinancing facility agreement; Shari'a compliant	Acquiring telecommunication devices and equipment from Alcatel-Lucent	Q2 2014	US Dollar	USD 122 million (SAR 458 million)	USD 101 million (SAR 377 million)
Banque Societe Generale	Mobily	Bilateral long-term financing facility agreement; Shari'a compliant	Financing the uncovered portion of the agreements with the Export Credit Agency of Finland (Finnvera), the Swedish Export Credit Corporation (EKN) and Export Development of Canada (EDC)	Q2 2014	US Dollar	USD 116 million (SAR 436 million)	USD 116 million (SAR 436 million)

Paid portion	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Additional details
SAR 1.2 billion	Murabaha rate based on SIBOR plus a fixed profit margin	Semi-annual scheduled instalments, with the first instalment settled in August 2012. The last instalment is due on 12 February 2019	Divided between five and seven years	SAR 5,826 million	SAR 1,063 million	SAR 6,889 million	None
SAR 214.45 million	Fixed rate	Scheduled instalments	10 years	SAR 272 million	SAR 1,472 million	SAR 1,744 million	Utilization period of 1.5 years and an extended repayment period of 8.5 years
SAR 63.66 million	Fixed rate per annum	Scheduled instalments	10 years	SAR 97 million	SAR 514 million	SAR 611 million	Utilization period of 1.5 years and an extended repayment period of 8.5 years
SAR 140 million	Murabaha rate based on SIBOR plus a fixed profit margin	Paid in one instalment due on 28 June 2020	7.5 years	SAR 136 million	SAR 1,207 million	SAR1,343 million	None
SAR 156.78 million	Fixed rate per annum	Semi-annual instalments	3 years	SAR 122 million	SAR 53 million	SAR 175 million	None
Repayment in Dec 2016: SAR 22.01 million	Fixed rate per annum	Semi-annual instalments	10.5 years	SAR 41 million	SAR 289 million	SAR 330 million	Utilization period of 2 years and an extended repayment period of 8.5 years
-	Murabaha rate based on SIBOR plus a fixed profit margin	One payment due on 26 June 2017	3 years	SAR 436 million	-	SAR 436 million	None

Lender	Borrowing company	Loan nature	Borrowing purpose	Date issued	Currency	Principal amount	Utilized amount
Samba	Mobily	Long-term financing facility agreement; Shari'a compliant	Financing the Company's working capital requirements	Q3 2014	Saudi Riyal	SAR 600 million	SAR 600 million
Banque Saudi Fransi	Mobily	Long-term financing facility agreement; Shari'a compliant	Financing the Company's capital expenditure and working capital requirements	Q3 2014	Saudi Riyal	SAR 500 million	SAR 500 million
Other loans (bonds)	Mobily	Vendor financing agreement	Vendor financing: Ericsson, Huawei, Thales, China Telecom Corporation	-	Saudi Riyal	SAR 1,090 million	SAR 1,090 million
Al Rajhi Bank	Mobily	Mid-term Shari'a compliant financing	Financing the Company's capital expenditure and working capital requirements	Q1 2016	Saudi Riyal	SAR 400 million	SAR 400 million
Local banks	Bayanat Al-Oula	Long term Shari'a compliant financing	Settlement of existing long-term loans and financing of working capital requirements of subsidiary	Q2 2013	Saudi Riyal	SAR 1.5 billion	SAR 1.5 billion
Alinma Bank	Mobily	Long term Shari'a compliant financing	Financing the Company's capital expenditure and working capital requirements	Q4 2016	Saudi Riyal	SAR 2 billion	SAR 800 million
Total							

Paid portion	Profit rate	Payment terms	Period	Current portion	Long-term portion	Total	Additional details
SAR 80 million	Murabaha rate based on SIBOR plus a profit margin	Scheduled semi-annual instalments	7 years	SAR 78 million	SAR 405 million	SAR 483 million	None
SAR 51 million	Murabaha rate based on SIBOR plus a fixed profit margin	Scheduled semi-annual instalments	7 years	SAR 50 million	SAR 388 million	SAR 438 million	None
SAR 616 million (including BSF SAR 20 million & NCB SAR 200 million)	-	Sporadic payments	3 years	SAR 259 million	SAR 435 million	SAR 694 million	None
SAR 210 million (settled old loan in Jan/ Feb)	Murabaha rate based on SIBOR plus a fixed profit margin	Scheduled instalments	3.5 years	SAR 99 million	SAR 299 million	SAR 398 million	None
SAR 200 million	Murabaha rate based on SIBOR plus a fixed profit margin	Scheduled semi-annual instalments. The last instalment is due on 17 June 2018	5 years	SAR 192 million	SAR 696 million	SAR 888 million	None
SAR 20 million (up-front fee)	Murabaha rate based on SIBOR plus a fixed profit margin	Scheduled instalments	10 years	-	SAR 780 million	SAR 780 million	None
				SAR 7,608 million	**SAR 7,061 million**	**SAR 15,209 million**	None

BOARD OF DIRECTORS MEETINGS AND ATTENDANCE

The Board of Directors held five meetings during 2016, as shown in the table below. The Board dedicated the time required to perform its duties and responsibilities, including preparation for Board meetings and the meetings of its committees, and ensuring members' attendance of meetings.

Board of Directors meetings and attendance 2016

No.	Name	18 February	19 April	16 June	23 October	12 December
1	Suliman Al Gwaiz	Present	Present	Present	Present	Present
2	Ahmed Julfar	Present	Resigned	Resigned	Resigned	Resigned
3	Abdulaziz Al Jomaih	Present	Absent	Present	Present	Absent
4	Abdullah Al Issa	Present	Present	Present	Present	Present
5	Mohamed Al Hussaini	Present	Present	Present	Present	Present
6	Khalifa Al Shamsi	Present	Present	Present	Present	Present
7	Khaled Al Ghoneim	Present	Present	Present	Present	Present
8	Homood Al Tuwaijri	Present	Present	Present	Present	Absent
9	Ali Al Subaihin	Present	Present	Present	Present	Present
10	Serkan Okandan	Present	Present	Present	Present	Present
11	Saleh Al Abdooli	Not yet appointed	Present	Present	Present	Present

RELATED PARTY TRANSACTIONS

During the year, several transactions were conducted by the Company with Emirates Telecommunications Corporation, a main shareholder in Mobily and represented by a number of Board Directors, namely: Saleh Al Abdooli, Khalifa Al Shamsi, Mohamed Hadi Al Hussaini and Serkan Okandan.

Entity	Relationship
Emirates Telecommunications Corporation and its subsidiaries	Founding Shareholder
Emirates Data Clearing House	Etisalat's Sister Company

Related party transactions are carried out under conditions and rates agreed upon by both parties. Administrative fees and other administrative expenses are calculated based on relevant agreements, signed with Emirates Telecommunications Corporation. Details of key related party transactions during the fiscal year ended 31 December 2016 are as follows:

Related party transactions 2016 (SAR '000)

	2016	2015
Interconnection and roaming network services rendered	78,002	30,032
Interconnection and roaming network services received	72,968	60,936
Administrative fees	36,681	37,533
Other administrative expenses	63,364	71,995
Telecom services	4,488	4,145
Other services	4,350	4,526

Telecom Solutions Limited Co. provides optical fiber services under a contract with Mobily. The contract, valued at SAR 3,139,870.70 was awarded on 15 October 2015 to the most competitive bidder.

COMPENSATION AND REMUNERATION

The following tables show compensation and remuneration details for Board members and senior executives.

Board of Directors compensation and remuneration (SAR '000)

Remuneration and allowances	Non-executive/Independent Board Directors
Board/Committee attendance allowances	249
Compensation allowances	177
Annual bonus	1,830
Incentive plans	-
Other allowances and non-monetary rewards paid monthly or annually	-

Senior executives compensation and remuneration (SAR '000)

Remuneration and allowances	Five senior executives receiving top allowances (including CEO and CFO)
Salaries	10,730
Allowances	3,296
Regular and annual bonuses	5,795
Incentive plans	1,138
Other allowances and non-monetary rewards paid monthly or annually	44

Senior executives' remuneration was recorded on a cash basis and includes payments from the previous year.

STATUTORY PAYMENTS

Statutory payments payable (SAR million)

Item	Payable to	Amount
Government share in commercial revenue fees	CITC	710
License fees	CITC	52
Zakat	DZIT	55

The Company is subject to Zakat in accordance with the regulations of Saudi Arabia's Department of Zakat and Income Tax ("DZIT"). Since the year ended 31 December 2009, Mobily has filed its Zakat returns in its consolidated report, including those of all subsidiaries, represented as a single legal entity managed by the Company. The following financial statements are taken from the Company's consolidated financial returns. 2014 and 2015's results have has been adjusted, which means certain financial results of 2014 have been reclassified based on the adjusted estimate returns which the Company plans to submit to DZIT.

The Company has filed its Zakat returns with DZIT for the years through 2014 and settled its Zakat thereon. The Company intends to submit an adjusted Zakat return for 2013 and 2014 as a result of restatements for those years.

The Company has finalized its Zakat status and obtained final Zakat assessments for the years until 2006. The Company has received Zakat assessments for the years 2007 through 2011, showing additional Zakat and withholding tax differences of SAR 317 million and SAR 237 million, respectively. These have been objected to by the Company at preliminary and higher appeal committees. The Company believes that it has sufficient grounds to contest the matters included in the assessments and that the eventual outcome of the appeal process will not result in any significant liability.

LAWSUITS AND PENALTIES

The CITC's Violations Committee issued a number of resolutions under which fines were imposed on Mobily. The Company has appealed these resolutions in accordance with the Telecom Law and pursuant regulations. These resolutions, and the resulting fines, were either related to the issuance of prepaid SIM cards, or offers allegedly made by the Company before being approved by CITC, among other reasons.

Mobily also filed a lawsuit in the Administrative Court (Board of Grievances), appealing the resolutions of the Violations Committee in accordance with the applicable law, as follows:

1. A total of 355 lawsuits are filed in the Administrative Court to appeal the imposed fines, at an estimated value of SAR 646,999,000 (six hundred and forty-six million, nine hundred and ninety-nine thousand Saudi Riyals), as at 31December 2016
2. The Administrative Court has issued to date a total of 173 rulings (verdicts) in favor of Mobily, under which the Court revoked 173 of CITC Violation Committee's resolutions. The total amount of the revoked fines is estimated at SAR 446,510,000 (four hundred and forty-six million, five hundred and ten thousand Saudi Riyals) as at 31 December 2016
3. Several of the aforementioned rulings are now considered final, which brings the total amount of finally revoked fines to SAR 374,772,000 (three hundred and seventy-four million, seven hundred and seventy-two thousand Saudi Riyals)

There are currently 125 lawsuits filed by or against Mobily in courts and legal committees, related to claims of property rents, fees for fiber cable installations, claims for unpaid invoices, claims for termination of lease contracts or otherwise.

The Company received a total of 167 lawsuits filed by some shareholders in the Committee for the Resolution in Securities Disputes. To date, 37 preliminary rulings were issued in favor of Mobily as well as 107 final rulings in favor of the Company. 12 lawsuits were revoked or waived, while 11 lawsuits are still under deliberation.

The Capital Market Authority issued a resolution to impose a fine of SAR 20,000 (twenty thousand Saudi Riyals) on Etihad Etisalat Co. (Mobily) due to its violation of clause (A) of Article (46) of the Capital Market Law and clause (A) of Article (41) of the Listing Rules. The Company failed to inform the CMA and the public within the specified time about its request on 16 November 2014 to refer to arbitration with regard to its dispute regarding receivable amounts due from Mobile Telecommunication Company Saudi Arabia (Zain). It was announced on the Saudi Stock Exchange (Tadawul)'s website on 2 December 2014.

CORPORATE GOVERNANCE COMPLIANCE

Following review of the Corporate Governance Regulations issued by the Capital Market Authority (CMA) and implemented in the Kingdom of Saudi Arabia, Mobily has adopted the governance rules and standards compliant with these Regulations. To illustrate the Company's compliance with the Regulations, the below table highlights articles that were not implemented, with supporting reasons:

Article	Clarification
Method of voting indicated in the Company's Articles of Association	The Company's Articles of Association state that the standard voting method is applied. This was the method used for selecting Board Members for the current term, as of 1 December 2015 for a period of 3 years. The Accumulative Voting System was not implemented.
Geographic analysis of the Company's total revenues	Given the nature of the telecom sector, a geographic analysis of the Company's total revenues is not available. The reason is that subscriber-generated revenue is not linked to a certain location or area; a subscriber may start a subscription in one area, while billed calls and usage originate from several areas within the Kingdom, based on the subscriber's location. International calls initiated by the subscriber cannot be ascribed to specific locations, since they are initiated beyond Saudi Arabia's borders.
Total revenues of subsidiaries operating abroad	Mobily InfoTech Ltd. (India) is considered a cost center, its main activity being the development of software and provision of technical support. UAE-based National Company for Business Solutions F.Z.E. is also a cost center, wholly owned by a Mobily subsidiary. Mobily Ventures Holding S.P.C., based in Bahrain, was established during 2014, when legal procedures relevant to its investments were completed. No operating revenue was recorded for the company during the fiscal year 2016.

ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL CONTROL PROCEDURES

The Audit Committee regularly monitors and supervises internal auditing within the Company, to ensure the effectiveness of the internal audit system in general, and the integrity of financial statements in particular. The committee aims to provide a consistent and regular assessment of internal audit measures, addressing any relevant concerns. These efforts are aligned with the Board of Directors' objective of being sufficiently certain that the internal auditing system is sound, transparent and effective.

To this end, the Audit Committee reviewed the regular reports submitted by the Internal Audit department throughout the fiscal year 2016, and in turn submitted its recommendations and course of action to the Board of Directors. The Committee also met with external auditors and the Company's executive management to discuss relevant issues.

The result of the annual review of the internal auditing system showed that there are many improvements that have been achieved by the system during the year, and the Company will continue running the periodic monitoring and reviewing the internal auditing system under the supervision of the Audit Committee. This review aims to ensure fulfilment of internal auditing objectives, improve efficiency and effectiveness of existing processes, and ensure compliance with applicable laws and regulations.

Implementation of International Financial Reporting Standards (IFRS)

Saudi Arabia's Capital Market Authority has approved implementation of International Financial Reporting Standards by all listed companies for financial statements prepared as of 1 January 2017.

In 2016, Mobily began implementation of its plan to adopt IFRS standards. External specialists have worked alongside the Company's in-house teams to develop and launch the plan. IFRS-compliant financial statements are expected to be issued for the first quarter of 2017. This is the result of a balanced approach towards the implementation of IFRS, which the Company has adopted since 2015.

DECLARATIONS

The Board of Directors declares the following:

- That the accounting records were prepared accurately.
- That the internal control system was developed on a sound basis and was implemented effectively (with the exception of items mentioned in the results of the annual internal audit).
- That no doubt exists as to the ability of the Company to continue to practice its business.
- That the Company is not a party in any contract where there lies a key interest for any Board Member, the CEO or CFO, or anyone connected with them except those items mentioned as related party transactions.

Board of Directors
Etihad Etisalat Co. (Mobily)
February 2017

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INDEPENDENT AUDITORS' REPORT

To: **The Shareholders of Etihad Etisalat Company**
(A Saudi Joint Stock Company)

We have audited the accompanying consolidated financial statements of **Etihad Etisalat Company** (the "Company") and its subsidiaries (collectively the "Group") which comprise the consolidated balance sheet as at 31 December 2016 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes (1) through (25) which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and Company's bylaws, 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. Management has provided us with all the information and explanations that we require relating to our audit of these consolidated financial statements.

Auditors' responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Opinion

In our opinion, the consolidated financial statements taken as a whole:

1) present fairly, in all material respects, the financial position of **Etihad Etisalat Company** (the "Company") and its subsidiaries (collectively the "Group") as at 31 December 2016, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Group; and

2) comply with the requirements of the Regulations for Companies and the Company's bylaws with respect to the preparation and presentation of the financial statements.

For KPMG Al Fozan & Partners
Certified Public Accountants

كي . بي . ام . جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R. 46
KPMG
Certified Public Accountants
KPMG Al Fozan & Partners

Khalil Ibrahim Al Sedais
License No. 371

Riyadh on: 10 Jumada'II 1438H
Corresponding to: 9 March 2017

CONSOLIDATED BALANCE SHEET

		As at 31 December	
SAR '000	Notes	2016	2015
ASSETS			
Current assets			
Cash and cash equivalents	3	866,109	497,570
Short-term investments		350,000	1,250,000
Accounts receivable	4	3,701,340	3,424,090
Due from a related party	5	69,568	36,508
Inventories	6	200,072	485,859
Prepaid expenses and other assets	7	1,698,949	1,722,022
Total current assets		**6,886,038**	**7,416,049**
Non-current assets			
Property and equipment	8	24,406,393	24,466,197
Licenses' acquisition fees	9	7,520,598	8,026,213
Goodwill	10	1,466,865	1,466,865
Investments		19,003	19,003
Capital advances		893,816	982,048
Total non-current assets		**34,306,675**	**34,960,326**
TOTAL ASSETS		**41,192,713**	**42,376,375**
LIABILITIES AND EQUITY			
Current liabilities			
Current portion of long-term loans and notes payable	11	7,607,902	5,766,262
Accounts payable	12	4,520,036	6,535,866
Due to related parties	5	138,420	210,970
Accrued expenses and other liabilities	13	5,631,463	5,476,393
Zakat provision	14	54,518	77,711
Total current liabilities		**17,952,339**	**18,067,202**
Non-current liabilities			
Long-term loans and notes payable	11	7,600,851	8,508,553
Provision for end-of-service benefits	15	281,737	239,854
Total non-current liabilities		**7,882,588**	**8,748,407**
TOTAL LIABILITIES		**25,834,927**	**26,815,609**
EQUITY			
Share capital	1	7,700,000	7,700,000
Statutory reserve	16	2,648,971	2,648,971
Retained earnings		5,007,315	5,210,295
Total shareholders' equity		**15,356,286**	**15,559,266**
Non-controlling interest		1,500	1,500
Total equity		**15,357,786**	**15,560,766**
TOTAL LIABILITIES AND EQUITY		**41,192,713**	**42,376,375**

The accompanying notes 1 through 25 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

		For the year ended 31 December	
SAR '000	Notes	2016	2015
Revenues	17	12,569,397	14,424,125
Cost of services and sales	18	(5,144,112)	(6,466,037)
Gross profit		**7,425,285**	**7,958,088**
Operating expenses:			
Selling and marketing expenses	19	(1,272,775)	(1,441,722)
General and administrative expenses	20	(2,143,091)	(3,574,936)
Depreciation and amortization	8,9	(3,774,673)	(3,625,347)
Total operating expenses		**(7,190,539)**	**(8,642,005)**
Operating income/(loss)		**234,746**	**(683,917)**
Finance expenses		(556,414)	(361,376)
Other income		75,357	121,145
Loss before zakat		**(246,311)**	**(924,148)**
Zakat	14	43,331	(168,977)
Net loss for the year		**(202,980)**	**(1,093,125)**
Earning / (loss) per share (in Saudi Riyals) from:			
Earning / (loss) from main operations	21	0.30	(0.89)
Loss for the year	21	(0.26)	(1.42)

The accompanying notes 1 through 25 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

SAR '000	Notes	For the year ended 31 December 2016	2015
OPERATING ACTIVITIES			
Net loss for the year		(202,980)	(1,093,125)
Adjustments to reconcile net loss to net cash from operating activities:			
Provision for inventory obsolescence	6	20,804	206,396
Depreciation	8	3,238,407	3,027,700
Amortization of licenses' acquisition fees	9	536,266	597,647
Provision for end-of-service benefits	15	68,282	81,045
Provision for doubtful debts	4	551,692	1,152,042
Zakat provision	14	(43,331)	168,977
Gain on sale of an investment		-	(5,696)
Finance expenses		556,414	361,376
Changes in working capital:			
Accounts receivable		(828,942)	(103,601)
Due from a related party		(33,060)	19,886
Inventories		264,983	125,819
Prepaid expenses and other assets		(137,573)	315,155
Accounts payable		561,704	(109,606)
Due to related parties		(72,550)	65,696
Accrued expenses and other liabilities		156,350	644,160
Finance expenses paid		(515,930)	(350,109)
Zakat paid	14	(77,125)	(104,583)
End-of-service benefits paid	15	(26,399)	(41,112)
Net cash provided by operating activities		**4,017,012**	**4,958,067**
INVESTING ACTIVITIES			
Short-term investment		900,000	(150,000)
Purchase of property and equipment		(5,572,956)	(3,515,205)
Disposals of property and equipment	8	22	5,202
Acquisition of license	9	(30,651)	(58,108)
Disposal of license		-	12,390
Acquisition of investment		-	(270)
Proceeds from sale of an investment		-	11,076
Net cash used in investing activities		**(4,703,585)**	**(3,694,915)**
FINANCING ACTIVITIES			
Proceeds from long-term loans and notes payables		4,137,216	216,406
Payment of long-term loans and notes payables		(3,082,104)	(2,946,320)
Net cash provided by / (used in) financing activities		**1,055,112**	**(2,729,914)**
Net increase / (decrease) in cash and cash equivalents		368,539	(1,466,762)
Cash and cash equivalents, beginning of the year		497,570	1,964,332
Cash and cash equivalents, end of the year	3	**866,109**	**497,570**
Supplemental non-cash information			
Property and equipment purchased credited to capital expendi-ture payable		(2,577,534)	(1,160,457)

The accompanying notes 1 through 25 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SAR '000	Share capital	Statutory reserve	Retained earnings	Total shareholders' equity	Non-controlling interest	Total
Balance as at 1 January 2015	7,700,000	2,648,971	6,303,420	16,652,391	1,500	16,653,891
Net loss for the year	-	-	(1,093,125)	(1,093,125)	-	(1,093,125)
Balance as at 31 December 2015	7,700,000	2,648,971	5,210,295	15,559,266	1,500	15,560,766
Net loss for the year	-	-	(202,980)	(202,980)	-	(202,980)
Balance as at 31 December 2016	**7,700,000**	**2,648,971**	**5,007,315**	**15,356,286**	**1,500**	**15,357,786**

The accompanying notes 1 through 25 form an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

1. ORGANIZATION AND ACTIVITY

1.1 Etihad Etisalat Company

Etihad Etisalat Company ("Mobily" or the "Company"), a Saudi joint stock company, is registered in the Kingdom of Saudi Arabia under commercial registration number 1010203896 issued in Riyadh on 14 December 2004 (corresponding to Dhul Qa'adah 2, 1425H). The main address for the Company is P.O. Box 23088, Riyadh 11321, Kingdom of Saudi Arabia.

The Company was incorporated pursuant to the Royal decree number M/40 dated 18 August 2004 (corresponding to Rajab 2, 1425H) approving the Council of Ministers resolution number 189 dated 10 August 2004 (corresponding to Jumada II 23, 1425H) to approve the award of the license to incorporate a Saudi joint stock company under the name of "Etihad Etisalat Company".

Pursuant to the Council of Ministers resolution number 190 dated 10 August 2004 (corresponding to Jumada II 23, 1425H), the Company obtained the licenses to install and operate 2G and 3G mobile telephone network including all related elements and the provision of all related services locally and internationally through its own network.

The Company's main activity is to establish and operate mobile wireless telecommunications network, fiber optics networks and any extension thereof, manage, install and operate telephone networks, terminals and communication unit systems, in addition to sell and maintain mobile phones and communication unit systems in the Kingdom of Saudi Arabia. The Company commenced its commercial operations on 25 May 2005 (corresponding to Rabi'II 17, 1426H).

The authorized, issued and paid up share capital of the Company is SR 7,700 million divided into 770 million shares of SR 10 each.

Mobily clarified in its announcement on 13 May 2015 (corresponding to 24 Rajab 1436H) that it is currently in the phase of studying the possibility of selling its telecommunications towers. On 31 July 2016, Mobily signed a Memorandum of Understanding (MoU) with Saudi Telecom Company (STC) to jointly explore the possibility of extracting value from the towers assets owned by both parties. The Company has neither entered into any other agreement in this regard nor determined the financial impact thereof.

1.2 Subsidiary companies

Below is the summary of Group's subsidiaries and ownership percentage as at 31 December 2016:

Name	Country of incorporation	Ownership percentage		Initial investment
		Direct	Indirect	
Mobily Ventures Holding SPC	Bahrain	100%	-	2,510
Mobily InfoTech India Private Limited	India	99.99%	0.01%	1,836
Bayanat Al-Oula for Network Services Company	Saudi Arabia	99.00%	1.00%	1,500,000
Zajil International Network for Telecommunication Company	Saudi Arabia	96.00%	4.00%	80,000
National Company for Business Solutions	Saudi Arabia	95.00%	5.00%	9,500
Sehati for Information Service Company	Saudi Arabia	90.00%	10.00%	900
Mobily Plug & Play LLC (Under liquidation)	Saudi Arabia	60.00%	-	2,250
National Company for Business Solutions FZE	United Arab Emirates	-	100.00%	184

The main activities of the subsidiaries are as follows:

- Development of technology software programs for the Company use, and to provide information technology support.
- Execution of contracts for the installation and maintenance of wire and wireless telecommunications networks and the installation of computer systems and data services.
- Wholesale and retail trade in equipment and machinery, electronic and electrical devices, wire and wireless telecommunications' equipment, smart building systems and import and export to third parties, in addition to marketing and distributing telecommunication services and providing consultation services in the telecommunication domain.
- Wholesale and retail trade in computers and electronic equipment, maintenance and operation of such equipment, and provision of related services.
- Providing television channels service over internet protocol (IPTV).
- Establishment, management and operation of, and investment in service and industrial projects.
- Establishment, operating and maintenance of telecommunications networks, computer and its related works, and establishment, maintenance and operating of computer software, importing and exporting and sale of equipment, devices and programs of telecommunication systems and computer software.
- Establish and own companies specializing in commercial activities.

- Manage its affiliated companies or to participate in the management of other companies in which it owns shares, and to provide the necessary support for such companies.
- Invest funds in shares, bonds and other securities.
- Own real estate and other assets necessary for undertaking its activities within the limits pertained by law.
- Own or to lease intellectual property rights such as patents and trademarks, concessions and other intangible rights to exploit and lease or sub-lease them to its affiliates or to others.
- Have interest or participate in any manner in institutions which carry on similar activities or which may assist the Company in realizing its own objectives in the Kingdom of Bahrain or abroad. The Company may acquire such entities or merge therewith.
- Perform all acts and services relating to the realization of the foregoing objects.

The consolidated financial statements of the Group include the financial information of the following subsidiaries:

1.2.1 Mobily Ventures Holding SPC

During 2014, the Company completed the legal formalities pertaining to the investment in a new subsidiary, Mobily Ventures Holding, Single Person Company (SPC), located in the Kingdom of Bahrain owned 100% by the Company.

1.2.2 Mobily InfoTech India Private Limited

During the year 2007, the Company invested in 99.99% of the share capital of a subsidiary company, Mobily InfoTech India Private Limited incorporated in Bangalore, India which commenced its commercial activities during the year 2008. Early 2009, the remaining 0.01% of the subsidiary's share capital was acquired by National Company for Business Solutions, a subsidiary of the Company.

The financial year end of the subsidiary is March 31 however, the Company uses the financial statements of the subsidiary for the same reporting period in preparing the Group's consolidated financial statements.

1.2.3 Bayanat Al-Oula for Network Services Company

During the year 2008, the Company acquired 99% of the partners‘ shares in Bayanat, a Saudi limited liability company. The acquisition included Bayanat's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of Saudi Riyals 1.5 billion, resulting in goodwill of Saudi Riyals 1.466 billion on the acquisition date. The remaining 1% is owned by National Company for Business Solutions, a subsidiary of the Company.

1.2.4 Zajil International Network for Telecommunication Company

During the year 2008, the Company acquired 96% of the partners' shares in Zajil International Network for Telecommunication Company ("Zajil"), a Saudi limited liability company. The acquisition included Zajil's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of Saudi Riyals 80 million, resulting in goodwill of Saudi Riyals 63 million on the acquisition date. The remaining 4% is owned by National Company for Business Solutions, a subsidiary of the Company. The goodwill has been fully impaired during the year ended 31 December 2014.

1.2.5 National Company for Business Solutions

During the year 2008, the Company invested in 95% of the share capital of National Company for Business Solutions, a Saudi limited liability company. The remaining 5% is owned by Bayanat, a subsidiary of the Company.

1.2.6 Sehati for Information Service Company

During 2014, the Company completed the legal formalities pertaining to the investment of 90% in Sehati for Information Service Company. The remaining 10% is owned by Bayanat, a subsidiary of the Company.

1.2.7 Mobily Plug & Play LLC (Under liquidation)

During 2014, the Company completed the legal formalities pertaining to the investment of 60% in Mobily Plug & Play LLC. The remaining 40% is owned by Plug & Play International, a Company incorporated in USA.

1.2.8 National Company for Business Solutions FZE

During 2014, the National Company for Business Solutions (KSA) completed the legal formalities pertaining to the investment of 100% in National Company for Business Solutions FZE, a Company incorporated in the United Arab of Emirates.

2. SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The accompanying consolidated financial statements have been prepared under the historical cost convention on the accrual basis of accounting and going concern concept in compliance with accounting standards promulgated by Saudi Organization for Certified Public Accountants ("SOCPA").

As of 31 December 2016 the Group's net current liabilities amounted to SR 11 billion (31 December 2015: SR 10.7 billion) whereas the net loss for the year ended 31 December 2016 amounted to SR 203 million (December 31, 2015: SR 1.1 billion).

As at 31 December 2016, the Group had firm commitments from its lenders to refinance its borrowings. Subsequent to the year end, on 12 February 2017, the Group has successfully refinanced SR 7.9 billion of its borrowings over 7 years maturity.

Based on its cash flows forecast, the Group expects to continue to meet its obligations as they become due in the normal course of operation. Accordingly, the Management believe that it is appropriate to prepare these consolidated financial statements under the going concern basis.

New accounting framework

As required by Saudi Organization for Certified Public Accountants (SOCPA), all listed companies are required to transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective 1 January 2017 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Company will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments in its first set of IFRS financial statements.

2.2 Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with generally accepted accounting standards in 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

a) Provision for doubtful debts

A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. For significant individual amounts, assessment is made at individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time and recoverability in the prior years. The provision for doubtful debts included in "general and administrative expenses" in the consolidated statement of income for the year ended December 31, 2016 amounted to SR 552 million (December 31, 2015: SR 1,152 million).

(b) Impairment of goodwill

The Group tests goodwill annually for any impairment. This impairment testing requires the use of estimates and assumptions to determine recoverable amounts of cash generating units that is based on value-in-use calculation.

(c) Property and equipment

Useful lives of property and equipment

The useful life of each of the Group's items of property and equipment is estimated based on the period over which the asset is expected to be available for use (Note 2.7). Such estimation is based on a collective assessment of practices of similar businesses, internal technical evaluation, experience with similar assets and application of judgment as to when the assets become available for use and the commencement of the depreciation charge.

The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property and equipment would increase the recorded operating expenses and decrease non-current assets.

Allocation of costs

The Group enters into arrangements with certain of its key suppliers which may include the provision of multiple products and services including property and equipment, inventories and maintenance and other services across a number of reporting periods. Such arrangements may include the provision of free of charge assets and incentives which enable the Group to obtain further products and services at discounted values. Management aggregates, where appropriate, such arrangements and allocates the net cost of such an aggregation between the multiple products and services based on its best estimate of the fair value of the individual components. The cost of such components is capitalized or expensed according to the relevant accounting policy.

(d) Zakat assessments

Provision for zakat and withholding taxes is determined by the Group 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 GAZT. The Group 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 GAZT is dependent on the eventual outcome of the appeal process which the Group 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 income in the period in which such final determination is made.

(e) Contingencies

The Group is currently involved in various legal proceedings. Estimates of the probable costs for the resolution of these claims, if any, have been developed in consultation with internal and external counsels handling the Group's defense in these matters and are based upon the probability of potential results. The Group's management currently believes that these proceedings will not have a material effect on the financial statements. It is possible, however, that future results of operations could be materially affected depending on the final outcome of the proceedings.

(f) Revenues

Gross versus net presentation

When the Group sells goods or services as a principal, revenue and payments to partners are reported on a gross basis in revenue and operating costs. If the Group sells goods or services as an agent, revenue and payments to partners are recorded in revenue on a net basis, representing the margin earned.

Whether the Group is considered to be the principal or an agent in the transaction depends on analysis by management of both the legal form and substance of the agreement between the Group and its business partners; such judgments impact the amount of reported revenue and operating expenses but do not impact reported assets, liabilities or cash flows.

Multiple element arrangements

In arrangements involving the delivery of bundled products and services, including long-term arrangements, those bundled products and services are separated into individual elements, each with its own separate revenue contribution taking into the consideration the specific contractual details, evaluated from the perspective of the customer. Total arrangement consideration is allocated to each deliverable based on the relative fair value of the individual element. The Group generally determines the fair value of individual elements based on an objective and reliable assessment of the prices at which the deliverables may be sold on a standalone basis, taking into consideration the time value of the money.

2.3 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank current accounts and Murabaha facilities with original maturities of three month or less from acquisition date.

2.4 Short-term investments

Short-term investments include placements with banks and other short-term highly liquid investments with original maturities of three months or more but not more than one year from the purchase date.

2.5 Accounts receivable

Accounts receivable are carried at original invoice amount less provision for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Such provisions are charged to the consolidated statement of income and reported under "general and administrative expenses". When account receivable is uncollectible, it is written-off against the provision for doubtful debts. Any subsequent recoveries of amounts previously written-off are credited against "general and administrative expenses" in the consolidated statement of income. Write-off of accounts receivable against which no provision is made is charged directly to the consolidated statement of income in the period in which such write-off is made and reported under general and administrative expenses. Accounts receivables which are collectible beyond 12 months are classified and presented as non-current assets in the consolidated balance sheet, taking into consideration the time value of the money.

2.6 Inventories

Inventories comprise of mobile phones (handsets) and other customer-premise equipment (CPE), SIM cards, pre-paid vouchers and scratch cards. Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the difference between the estimated selling price in the ordinary course of business and selling expenses. Cost is determined by using the weighted average method. The Group provides for slow-moving and obsolete inventories in the cost of services and sales in the consolidated statement of income.

2.7 Property and equipment

Property and equipment, except land, are stated at cost less accumulated depreciation. The cost of property and equipment includes direct costs and other directly attributable incremental costs incurred in their acquisition and installation, net of any supplier discounts.

Depreciation on property and equipment is charged to the consolidated statement of income using the straight line method over their estimated useful lives at the following annual depreciation rates.

	Depreciation rate
Buildings	5%
Leasehold improvements	10%
Telecommunication network equipment	4% - 20%
Computer equipment and software	16% - 20%
Office equipment and furniture	14% - 33%
Vehicles	20% - 25%

Additional depreciation is charged in the current period to allow for known delays in capitalization or transfer out of capital work in progress.

Major renovations and improvements including related direct labor and other direct costs are capitalized if they increase the productivity or the operating useful life of the assets. Repairs and maintenance are expensed when incurred. Gain or loss on disposal of property and equipment which represents the difference between the sale proceeds and the carrying amount of these assets, is recognized in the consolidated statement of income.

Capital work in progress is stated at cost until the construction on installation is complete. Upon the completion of construction or installation, the cost of such assets together with cost directly attributable to construction or installation, including capitalized borrowing cost, are transferred to the respective class of asset. No depreciation is charged on capital work in progress.

2.8 Licenses' acquisition fees

Licenses' acquisition fees are amortized according to their regulatory useful lives and the amortization is charged to the consolidated statement of income. The capitalized license fees are reviewed at the end of each financial year to determine if any decline exists in their values. In case impairment is identified in the capitalized licenses' fees, such impairment is recorded in the consolidated statement of income.

2.9 Goodwill

Goodwill represents the excess of consideration paid for the acquisition of subsidiaries over the fair value of the net assets acquired at the acquisition date and reported in the consolidated financial statements at carrying value after adjustments for impairment in value.

2.10 Investments in subsidiaries and associates

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies to obtain economic benefit generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given or liabilities incurred or assumed at the date of acquisition. Acquisition-related costs are recognized in the consolidated statement of income as incurred. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. Goodwill arising from acquisition of subsidiaries is reported separately in the accompanying consolidated balance sheet. Goodwill is tested annually for impairment and carried at cost, net of any accumulated impairment losses, if any.

Intercompany transactions, balances and unrealized gains on transactions between

Group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates

Associates are entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting and are initially recognized at cost. The Group's share of its associate's post-acquisition income or losses is recognized in the consolidated statement of income, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising from investments in associates are recognized in the consolidated statement of income.

(c) Non-controlling interest

Non-controlling interest represents the portion of income or loss and net assets not held by the Group and are presented separately in the consolidated statement of income and within equity in the consolidated balance sheet, separately from shareholders' equity.

Acquisition of non-controlling interest is accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

2.11 Impairment of non-financial assets

Non-financial assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is higher of an asset's fair value less cost to sell or value in use. For the purpose of assessing impairment, assets are grouped at lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the consolidated statement of income. Impairment losses recognized on goodwill are not reversible.

2.12 Borrowings

Borrowings are recognized at the proceeds received, net of transactions costs incurred, if any. 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 consolidated statement of income.

2.13 Accounts payable and accruals

Liabilities are recognized for amounts to be paid for goods and services received, whether or not billed to the Group.

2.14 Provisions

Provisions are recognized when; the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

2.15 Zakat and income tax

The Group is subject to zakat in accordance with the regulations of the General Authority of Zakat and Tax ("GAZT"). Provision for zakat for the Group and zakat related to the Group's ownership in the Saudi Arabian subsidiaries is charged to the consolidated statement of income. Foreign shareholders in the consolidated Saudi Arabian subsidiaries are subject to income taxes. Additional amounts payable, if any, at the finalization of final assessments are accounted for when such amounts are determined. The Company and its Saudi Arabian subsidiaries withhold taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required under Saudi Arabian Income Tax Law.

Foreign subsidiaries are subject to income taxes in their respective countries of domicile. Such income taxes are charged to the consolidated statement of income.

2.16 Employee termination benefits

Employee termination benefits required by Saudi Labor and Workman Law are accrued by the Company and its Saudi Arabian subsidiaries and charged to the consolidated statement of income. Provision for employees' termination benefits are made in accordance with the Projected Unit Credit method. The provision is recognized based on the present value of the defined benefit obligations.

The present value of the defined benefit obligations is calculated using assumptions on the average annual rate of increase in salaries, average period of employment and an appropriate discount rate. The assumptions used are calculated on a consistent basis for each period and reflect management's best estimate. The discount rates are set in line with the best available estimate of market yields currently available at the reporting date with reference to government and corporate bonds.

2.17 Revenues

Revenue comprises the fair value of the consideration received or receivable from the sale of goods and services in the ordinary course of the Group's activities. Revenue is stated net of trade discounts, promotions and volume rebates and after eliminating revenue within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific criteria have been met for each of the Group's activities, as described below.

The Group's revenue comprises revenue from mobile telecommunications services as summarized below:

(a) Revenue from mobile telecommunications comprises amounts charged to customers in respect of connection or activation, airtime usage, text messaging, the provision of other mobile telecommunications services including data services, and fees for connecting users of other fixed line and mobile networks to the Group's network.

(b) Airtime, text messaging and data usage by customers is invoiced and recorded as part of a periodic billing cycle and recognized as revenue over the related access period. Unbilled revenue resulting from services already provided from the billing cycle date to the end of each accounting period is accrued and unearned revenue from services provided in periods after each accounting period is deferred and recognized as the customer uses the airtime.

(c) Connection or activation fees, are non-refundable, one-off, fees charged to customers when they connect to the network and are recognized as revenue in full over the period in which the underlying obligation is fulfilled. The fees to the Group are not contingent upon resale or payment by the end user as the Group has no further obligations related to bringing about resale or delivery, and all other revenue recognition criteria have been met.

(d) Subscription fees are monthly access fees that do not vary according to usage and are recognized as revenue on a straight-line basis over the service period.

(e) Interconnect revenue is recognized on the basis of the gross value of invoices raised on other operators for termination charges based on the airtime usage, text messaging, and the provision of other mobile telecommunications services for the billing period as per the agreed rate.

(f) Roaming revenue is recognized on the basis of the gross value of invoices raised on other roaming partners based on actual traffic delivered during the billing period.

(g) Revenue from sale of handsets and replaced sim cards is recognized upon delivery of the products to the customers in the period during which the sale transaction took place.

(h) In arrangements involving the delivery of bundled products and services, those bundled products and services are separated into individual elements, each with its own separate revenue contribution, evaluated from the perspective of the customer. Total arrangement consideration is allocated to each deliverable based on the relative fair value of the individual element. The Group generally determines the fair value of individual elements based on an objective and reliable assessment of the prices at which the deliverable is regularly sold on a standalone basis.

2.18 Costs and expenses

2.18.1 Cost of services and sales

Represent the cost of services and sales incurred during the period which include the costs of goods sold, direct labor, governmental charges, interconnection costs and other overheads related to the revenues recognized.

2.18.1.a Governmental charges

Governmental charges represent government contribution fees in trade earnings, license fees, frequency waves' fees and costs charged to the Group against the rights to use telecommunications and data services in the Kingdom of Saudi Arabia as stipulated in the license agreements. These fees are recorded in the related periods during which these fees are incurred and included under cost of services in the consolidated statement of income.

2.18.1.b Interconnection costs

Interconnection costs represent connection charges to national and international telecommunication networks. Interconnection costs are recorded in the period when relevant calls are made and are included in the cost of services caption in the consolidated statement of income.

2.18.2 Selling and marketing expenses

Represent expenses resulting from the Group's management efforts with regard to the marketing function or the selling and distribution function. Selling and marketing expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between selling and marketing expenses and cost of revenues, when required, are made on a consistent basis.

2.18.3 General and administrative expenses

Represent expenses relating to the administration and not to the revenue earning function or the selling and distribution functions. General and administrative expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

2.19 Dividends

Dividends are recorded in the consolidated financial statements in the period in which they are approved by the Shareholders of the Group.

2.20 Foreign currency transactions

(a) Reporting currency and functional currency

The consolidated financial statements are presented in Saudi Riyals “SR”, which is the Company’s functional and Group’s presentation currency. Each subsidiary in the Group determines its own functional currency, and as a result, items included in the financial statements of each subsidiary are measured using that functional currency.

(b) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. At consolidated balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated to the functional currency at exchange rates prevailing on that date. Gains and losses resulting from changes in exchange rates for the related period end, are recognized in the consolidated statement of income.

(c) Group companies

The results and financial position of foreign subsidiaries and associates, not operating in a hyper-inflationary economy, having reporting currencies other than Saudi Riyals are translated into Saudi Riyals as follows:

i. assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the date of that balance sheet;
ii. income and expenses for each the income statement are translated at average exchange rates; and
iii. components of the shareholders’ equity accounts are translated at the exchange rates in effect at the dates the related items originated.

Cumulative adjustments resulting from the translations of the financial statements of foreign subsidiaries and associates into Saudi Riyals are reported as a separate component of shareholders’ equity.

2.21 Operating and finance leases

Lease agreements are classified as finance leases if the lease agreement transfers substantially all the risks and rewards incidental to ownership of an asset. Other leases are classified as operating leases whereby the expenses and the revenues associated with the operating leases are recognized in the consolidated statement of income on a straight-line basis over the term of the leases.

The present value of lease payments for assets sold under finance lease is recognized as a receivable net of unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return. Provision is made against lease receivables, as soon as they are considered doubtful of recovery. Amounts due over one year are classified as non-current assets.

2.22 Loyalty program

The Group operates a loyalty program that provides a variety of benefits to customers and third parties. Loyalty award credits are based on a customer's telecommunications usage. The Group accounts for the loyalty award credits as a separately identifiable component of the sales transactions and on points purchased by third parties in which they are granted.

The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability in the consolidated balance sheet until the awards are utilized. The fair value is determined using estimation techniques that take into account the fair value of the benefits for which the awards could be redeemed and is net of awards credit which are expected to expire (breakage). The Group also sells award credits to third parties for use in promotional activities. The revenue from such sales is recognized when the awards are ultimately utilized.

2.23 Contingent liabilities

A contingent liability is a possible obligation which may arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group, or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. If the amount of the obligation cannot be measured with sufficient reliability, then the Group does not recognize the contingent liability but discloses it in the consolidated financial statements.

2.24 Segment reporting

(a) Business segment

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

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

(b) Geographical segment

A geographical segment is group of assets, operations or entities engaged in revenue producing activities within a particular economic environment that are subject to risks and returns different from those operating in other economic environments. See also Note 24.

3.CASH AND CASH EQUIVALENTS

	2016	2015
Cash in hand	905	936
Cash at banks	865,204	496,634
	866,109	**497,570**

4. ACCOUNTS RECEIVABLE

	2016	2015
Accounts receivable	6,431,214	5,809,870
Less: provision for doubtful debts	(2,729,874)	(2,385,780)
	3,701,340	**3,424,090**

The movement of the provision for doubtful debts during the year ended December 31, is as follows:

	2016	2015
Balance at January 1	(2,385,780)	(1,233,738)
Charge for the year	(551,692)	(1,152,042)
Write off during the year	207,598	-
Balance at December 31	**(2,729,874)**	**(2,385,780)**

During the fourth quarter of 2014, the Company started an arbitration process in relation to the amounts due, arising from the Services Agreement that was signed with Mobile Telecommunications Company Saudi Arabia ("Zain KSA") on 6 May 2008 (corresponding to 1 Jumada'l 1429H). This agreement covers the services provided to Zain KSA which include national roaming, site sharing, transmission links, and international traffic. The Arbitral Tribunal held several arbitration sessions to discuss and review the pleadings of both parties as previously disclosed. The last arbitration session was held on October 3, 2016 (corresponding to 30 Dhu Al-Hijjah 1437H) in order to discuss the draft copy of the technical expert report, which ended with the Arbitral Tribunal's decision to close the proceedings and submit the case for review and consideration.

On 10 November 2016 (corresponding to 10 Safar 1438H), the Company received the arbitral award amounting to SR 219.4 million, which has ended its dispute with Zain KSA. The arbitral award is final and binding on both parties. The Company is in the process of initiating the necessary procedures to collect the awarded amount from Zain. Subsequent to the year end, the Company has collected the full amount of the arbitral award.

5. RELATED PARTIES TRANSACTIONS AND BALANCES

During the year, the Group transacted with the following related parties:

Party	Relation
Emirates Telecommunication Corporation - Etisalat and its subsidiaries	Founding shareholder
Emirates Data Clearing House	Affiliate to Emirates Telecommunication Corporation

The terms of transactions with related parties are at agreed rates with those parties. Management fee and other management expenses are calculated based on the relevant agreements with Emirates Telecommunication Corporation.

The following are the details of major transactions with related parties during the year ended December 31:

	2016	2015
Interconnection services and roaming services rendered	78,002	30,032
Interconnection services and roaming services received	72,968	60,936
Management fees	36,681	37,533
Other management expenses	63,364	71,995
Telecommunications services	4,488	4,145
Other services	4,350	4,526

Due from a related party comprises of the following as at December 31:

	2016	2015
Emirates Telecommunication Corporation	69,568	36,508
	69,568	**36,508**

Due to related parties comprise of the following as at December 31:

	2016	2015
Emirates Telecommunication Corporation	137,006	210,627
Emirates Data Clearing House	1,414	343
	138,420	**210,970**

6. INVENTORIES

	2016	2015
Handsets and CPEs	482,083	712,284
SIM cards	32,497	59,975
Prepaid vouchers and scratch cards	10,285	17,589
	524,865	**789,848**
Less: provision for inventory obsolescence	(324,793)	(303,989)
	200,072	**485,859**

The movement of the provision for inventory obsolescence during the year ended December 31, is as follows:

	2016	2015
Balance at January 1	(303,989)	(118,061)
Charge for the year	(20,804)	(206,396)
Write off during the year	-	20,468
Balance at December 31	**(324,793)**	**(303,989)**

7. PREPAID EXPENSES AND OTHER ASSETS

	2016	2015
Prepaid expenses	376,666	426,623
Accrued revenues	216,596	356,213
Deferred costs	178,901	173,983
Advance payments to trade suppliers	91,024	116,480
Others	835,762	648,723
	1,698,949	**1,722,022**

8. PROPERTY AND EQUIPMENT

	Land	Buildings	Leasehold Improvements	Telecomm-unications Equipment	Computer Equipment and Software	Office Equipment and Furniture	Vehicles	CWIP	Total
Cost									
1 January 2016	274,710	1,221,544	833,648	32,938,344	4,359,270	499,024	3,046	811,810	40,941,396
Additions	-	9,014	12,815	2,140,142	528,463	1,699	-	486,492	3,178,625
Reclassifications	-	(103,666)	(7,545)	111,211	-	-	-	-	-
Transfers	-	39,560	-	408,848	12,103	-	-	(460,511)	-
Disposals	-	-	-	-	(153)	-	-	-	(153)
As of 31 December 2016	**274,710**	**1,166,452**	**838,918**	**35,598,545**	**4,899,683**	**500,723**	**3,046**	**837,791**	**44,119,868**
Accumulated depreciation									
1 January 2016	-	143,334	542,517	12,715,107	2,634,938	437,682	1,621	-	16,475,199
Depreciation for the year	-	53,035	69,516	2,545,421	549,834	20,171	430	-	3,238,407
Reclassification	-	(3,980)	(949)	4,929	-	-	-	-	-
Disposals	-	-	-	-	(131)	-	-	-	(131)
As of 31 December 2016	**-**	**192,389**	**611,084**	**15,265,457**	**3,184,641**	**457,853**	**2,051**	**-**	**19,713,475**
Net book value									
As of 31 December 2016	**274,710**	**974,063**	**227,834**	**20,333,088**	**1,715,042**	**42,870**	**995**	**837,791**	**24,406,393**
As of 31 December 2015	274,710	1,078,210	291,131	20,223,237	1,724,332	61,342	1,425	811,810	24,466,197

During the year ended 31 December 2016, the Group has capitalized borrowing costs amounting to SR 95 million (31 December 2015: SR 50 million) and internal technical salaries amounting to SR 162 million (31 December 2015: SR 140 million).

9. LICENSES' ACQUISITION FEES

	Mobile Telecom-communication services license	3G services license	Other	Total
Cost				
1 January 2016	12,210,000	753,750	1,180,075	14,143,825
Additions	-	-	30,651	30,651
31 December 2016	**12,210,000**	**753,750**	**1,210,726**	**14,174,476**
Accumulated amortization				
1 January 2016	5,453,518	336,169	327,925	6,117,612
Amortization for the year	423,732	26,190	86,344	536,266
31 December 2016	**5,877,250**	**362,359**	**414,269**	**6,653,878**
Net book value				
31 December 2016	**6,332,750**	**391,391**	**796,457**	**7,520,598**
31 December 2015	6,756,482	417,581	852,150	8,026,213

Pursuant to the royal Decree no. 61534 dated 3 October 2016 (corresponding to 30 Dhu Al-Hijjah 1437H), the Communication and Information Technology Commission (CITC) approved the extension of the Global System for Mobile communication (GSM) and 3G licenses for an additional 15 years effective from the original expiry date of those licenses. Consequently, the Group has revised the remaining useful life for amortization of these licenses by an additional 15 years. During the extended period, the Company is required to pay to CITC an annual variable fee of 5% of net profit.

On 21 February 2017, the Communications and Information Technology Commission (CITC) has awarded Mobily a Unified License to provide all licensed telecommunication services including fixed line voice services and fixed internet against a fee of SR 5 Million. The Unified License is valid until 21 October 2043.

10. GOODWILL

The details of goodwill arising from the acquisition of the following subsidiaries, as disclosed in Note 1.2, are as follows:

	2016	2015
Bayanat Al-Oula for Network Services Company	1,466,865	1,466,865

The Group has separately tested the goodwill for any impairment. The recoverable amount has been determined based on value-in-use, using discounted cash flow analysis. The cash flow projections are based on approved budget. The discount rate used is 10% and terminal value growth rate of 1.5%.

11. LOANS AND NOTES PAYABLE

	2016	2015
Long-term loans	15,208,753	14,274,815
Less: current portion	(7,607,902)	(5,766,262)
Non-current	**7,600,851**	**8,508,553**

a) Maturity profile of loans and notes payable:

	2016	2015
Less than one year	7,607,902	5,766,262
Between one to five years	6,488,851	8,508,553
Over five years	1,112,000	-
	15,208,753	**14,274,815**

As at 31 December 2016, the Group had firm commitments from its lenders to refinance its borrowings. Subsequent to the year end, on 12 February 2017, the Group has successfully refinanced SR 7.9 billion of its borrowings over 7 years maturity. As a result, SR 6 billion will be classified as non-current liabilities compared to the existing position as at 31 December 2016.

b) The details of loans and notes payable as at 31 December 2016 are as follows:

Lender	Borrowing Company	Loan nature	Borrowing purpose	Date issued	Currency	Principal amount
Local banks Syndicated	Mobily	Long-term refinancing facility agreement Sharia' compliant	Settling the outstanding loan balances, previously obtained by Mobily, and financing the Company's capital expenditures and working capital requirements.	Q1, 2012	Saudi Riyals	Saudi Riyals 10 billion
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q3, 2013	US Dollars	USD 644 million (Saudi Riyals 2.4 billion)
Export Credit Agency of Finland (Finnvera) & Swedish Export Credit Corporation (EKN))	Mobily	Long-term financing agreement Sharia' compliant	Acquiring network equipment from Nokia Siemens Networks (NSN) and Ericsson to upgrade and enhance the infrastructure capabilities, introduce new technologies, and strengthen the Company's competitiveness in the business segment	Q1, 2014	USD Dollars	USD 451 million (Saudi Riyals 1,691 million)
Saudi Investment Bank	Mobily	Long-term financing agreement Sharia' compliant	Financing the Company's working capital requirements	Q1, 2014	Saudi Riyals	Saudi Riyals 1.5 billion
CISCO Systems International	Mobily	Vendor financing agreement	Acquiring CISCO network equipment and software solutions	Q1, 2014	US Dollars	USD 135 Million (Saudi Riyals 506.8 million)
Export Development of Canada (EDC)	Mobily	Long-term financing agreement Sharia' compliant	Acquiring a telecom-munication devices and equipment from Alcatel-Lucent	Q2, 2014	US Dollars	USD 122 million (Saudi Riyals 458 million)
Societe Generale Banque	Mobily	Bilateral long-term financing agreement Sharia' compliant	Financing the uncovered portion of the agreements with the Export Credit Agency of Finland (Finnvera) and the Swedish Export Credit Corporation (EKN) and Export Development of Canada (EDC)	Q2, 2014	US Dollars	USD 116 million (Saudi Riyals 436 million)
Samba	Mobily	Long-term financing agreement Sharia' compliant	Financing its working capital requirements	Q3, 2014	Saudi Riyals	Saudi Riyals 600 million

Utilized amount	Profit rate	Payment terms	Period	Current portion	Long- term portion	Total	Other terms
Saudi Riyals 10 billion	Murabaha rate based on SIBOR plus a fixed profit margin	Semi-annual scheduled installments, with the first installment settled in August 2012. The last installment is due on 12 February 2019.	Divided to five and seven years	Saudi Riyals 5,826 million	Saudi Riyals 1,063 million	Saudi Riyals 6,889 million	-
USD 512 million (Saudi Riyals 1,920 million)	Fixed rate per annum	Scheduled installments	10 years	Saudi Riyals 272 million	Saudi Riyals 1,472 million	Saudi Riyals 1,744 million	Utilization period of 1.5 years, repayment period of 8.5 years
USD 174 million (Saudi Riyals 652 million)	Fixed rate per annum	Scheduled installments	10 years	Saudi Riyals 97 million	Saudi Riyals 514 million	Saudi Riyals 611 million	Utilization period of 1.5 years, repayment period of 8.5 years
Saudi Riyals 1.5 billion	Murabaha rate is based on SIBOR plus a fixed profit margin.	Scheduled installments	7.5 years	Saudi Riyals 136 million	Saudi Riyals 1,207 million	Saudi Riyals 1,343 million	-
USD 93.69 million (Saudi Riyals 351.34 million)	Fixed rate	Semi-annual repayments	3 years	Saudi Riyals 122 million	Saudi Riyals 53 million	Saudi Riyals 175 million	-
USD 101 million (Saudi Riyals 377 million)	Fixed rate per annum	Semi-annual repayments	10.5 years	Saudi Riyals 41 million	Saudi Riyals 289 million	Saudi Riyals 330 million	Utilization period of 2 years, and repayment period of 8.5 years
USD 116 million (Saudi Riyals 436 million)	Murabaha rate is based on LIBOR plus a fixed profit margin	One bulk payment due on 26 June 2017	3 years	Saudi Riyals 436 million	-	Saudi Riyals 436 million	-
Saudi Riyals 600 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Semi-annual scheduled installments	7 years	Saudi Riyals 78 million	Saudi Riyals 405 million	Saudi Riyals 483 million	-

Lender	Borrowing Company	Loan nature	Borrowing purpose	Date issued	Currency	Principal amount
Banque Saudi Fransi	Mobily	Long-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q3, 2014	Saudi Riyals	Saudi Riyals 500 million
Other debts (promissory notes and discounted invoices)	Mobily	Vendor Financing	Vendor financing Ericson, Huawei, Thales, CCS	-	Saudi Riyals	Saudi Riyals 1,090 million
Al-Rajhi Bank	Mobily	Mid-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q1, 2016	Saudi Riyals	Saudi Riyals 400 million
Local banks Syndicated	Bayanat	Long-term financing agreement Sharia' compliant	Settling outstanding long-term loans in addition to financing the subsidiary's working capital requirements	Q2, 2013	Saudi Riyals	Saudi Riyals 1.5 billion
Al Inma bank	Mobily	Long-term financing agreement Sharia' compliant	Financing its capital expenditures and working capital requirements	Q4, 2016	Saudi Riyals	Saudi Riyals 2,000 million
Total						

Utilized amount	Profit rate	Payment terms	Period	Current portion	Long- term portion	Total	Other terms
Saudi Riyals 500 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Semi-annual scheduled installments	7 years	Saudi Riyals 50 million	Saudi Riyals 388 million	Saudi Riyals 438 million	-
Saudi Riyals 1,090 million	-	Sporadic payments	3 years	Saudi Riyals 259 million	Saudi Riyals 435 million	Saudi Riyals 694 million	-
Saudi Riyals 400 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Scheduled payments	3.5 years	Saudi Riyals 99 million	Saudi Riyals 299 million	Saudi Riyals 398 million	-
Saudi Riyals 1.5 billion	Murabaha rate is based on SIBOR plus a fixed profit margin	Semi-annual scheduled installments where the last installment is due on 17 June 2018	5 years	Saudi Riyals 192 million	Saudi Riyals 696 million	Saudi Riyals 888 million	-
Saudi Riyals 800 million	Murabaha rate is based on SIBOR plus a fixed profit margin	Scheduled installments	10 years	-	Saudi Riyals 780 million	Saudi Riyals 780 million	-
				Saudi Riyals 7,608 million	Saudi Riyals 7,601 million	Saudi Riyals 15,209 Million	

12. ACCOUNTS PAYABLE

	2016	2015
Capital expenditure payable	2,204,310	4,781,273
Trade accounts payable	2,315,726	1,754,593
	4,520,036	**6,535,866**

13. ACCRUED EXPENSES AND OTHER LIABILITIES

	2016	2015
Deferred revenues	1,624,924	1,323,753
Accrued telecommunication expenses	1,727,509	1,703,985
Accrued services and maintenance expenses	429,165	495,123
Accrued selling and marketing expenses	412,763	544,428
Others	1,437,102	1,409,104
	5,631,463	**5,476,393**

14. ZAKAT

The Group is subject to zakat according to the regulations of the General Authority of Zakat and Tax (GAZT) in the Kingdom of Saudi Arabia. The Group files its zakat returns on a consolidated basis, starting from the financial year ended December 31, 2009 and thereafter, where it includes the Company and its subsidiaries due to the fact that the Group is one economic entity wholly owned and managed by the Company.

The Group has filed its zakat returns with GAZT for the years through 2015 and settled its zakat thereon.During the year ended 31 December 2016, the Group submitted adjusted zakat returns for the years 2013 and 2014, as a result of restatement of the financial statements for the said years and has partially reversed the excess zakat previously paid to GAZT.

The Group has finalized its zakat status and obtained the final zakat assessments for the years until 2006. The Group has received zakat assessments for the years 2007 through 2011 that showed additional zakat and withholding tax assessments of SR 317 million and SR 237 million, respectively, which have been appealed by the Group at the Preliminary and Higher Appeal Committees. During the year ended 31 December 2016, The Appeal Committee issued its ruling on certain zakat and withholding tax matters and those rulings issued against the Group have been appealed at the higher Appeal Committee. Management believes that it has sufficient grounds to contest the matters included in the assessments and the eventual outcome of the appeal process will not result in any significant liability.

14.1 Calculation of adjusted net income

	2016	2015
Loss before zakat	(246,311)	(924,148)
Depreciation	(719,949)	(1,163,498)
Provisions	442,570	1,686,640
Adjusted net loss	**(523,690)**	**(401,006)**

14.2 Zakat base calculation

The significant components of the zakat base under zakat and income tax regulations are principally comprised of the following:

	Notes	2016	2015
Adjusted net loss for the year	14.1	(523,690)	(401,006)
Shareholder's equity at beginning of the year		15,559,266	16,652,391
Provisions as at beginning of the year		4,031,320	2,344,680
Loans		15,208,754	14,274,815
Other additions		2,204,311	4,796,275
Property and equipment, as adjusted		(31,115,260)	(31,263,242)
Goodwill		(1,466,865)	(1,466,865)
Other deductions		(1,731,606)	(1,843,102)
Total zakat base		**2,166,230**	**3,093,946**

Zakat is payable at 2.5 percent of zakat base.

14.3 Provision for zakat

	2016	2015
January 1	77,711	13,317
Charge for the year*	53,932	168,977
Payments current year	(77,125)	(104,583)
December 31	**54,518**	**77,711**

*This includes an amount of SR 97.2 million, which represents partial reversal of the excess zakat paid to GAZT as a result of the restatement of financial statements for the years 2013 and 2014. The Company has submitted revised zakat returns for the said years during 2016.

15. PROVISION FOR END-OF-SERVICE BENEFITS

	2016	2015
January 1	239,854	199,921
Charge for the year	68,282	81,045
Payments	(26,399)	(41,112)
December 31	**281,737**	**239,854**

The above provision is based on the following significant assumptions:

	2016	2015
Discount rate	**4.30%**	4.25%
Average annual rate of salary increase (per annum compound)	**2.00%**	1.75%

16. STATUTORY RESERVE

In accordance with the Company's By-Laws, the Company establishes at every financial year end a statutory reserve by the appropriation of 10% of the annual net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

17. REVENUES

	2016	2015
Usage	9,875,340	11,549,998
Activation and subscription fees	1,868,497	1,892,567
Others	825,560	981,560
	12,569,397	**14,424,125**

18. COST OF SERVICES AND SALES

	Notes	2016	2015
Network access charges		2,036,157	2,756,028
Rental and maintenance of network equipment expenses		1,170,272	1,350,536
Cost of utilized inventories		713,484	949,505
Government contribution fees in trade earnings		709,731	795,106
Frequency wave fees		142,291	124,896
National transmission and interconnection costs		126,286	124,083
License fees		51,561	57,344
Provision for inventory obsolescence	**6**	20,804	206,396
Others		173,526	102,143
		5,144,112	**6,466,037**

19. SELLING AND MARKETING EXPENSES

	2016	2015
Advertisement, promotion and sales commissions	619,836	695,080
Salaries, wages and employee benefits	590,958	696,602
Flagships rental expenses	61,981	50,040
	1,272,775	**1,441,722**

20. GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	2016	2015
Salaries, wages and employees' benefits		665,340	647,121
Provision for doubtful debts	**4**	551,692	1,152,042
Maintenance		328,171	465,630
Rentals		104,977	123,100
Consulting and professional services		93,434	247,590
Management fees and incentives		36,681	37,533
Travel and transportation		17,130	21,566
Board of Directors' remunerations and allowances		(649)	(8,291)
Other		346,315	888,645
		2,143,091	**3,574,936**

21. EARNING / (LOSS) PER SHARE

Earning / (loss) per share is calculated by dividing income / (loss) from main operations and net (loss) for the year by the weighted average number of issued shares of 770 million, as at December 31, 2016 and 2015.

22. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

22.1 Financial instruments

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

Risk management is carried out by senior management under policies approved by the board of directors. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The most important types of risk are credit risk, currency risk and fair value and cash flow commission rate risks.

Financial instruments carried on the balance sheet include cash and cash equivalents, short-term investments, accounts receivable, due from a related party, short-term and long-term loans and notes payable, accounts payable, due to related parties and accrued expenses and other current liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. Significant accounting policies for financial assets and liabilities are set out in Note 2.

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

22.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Cash is placed with banks with sound credit ratings. The Group regularly updates its cash flow and, where appropriate, places any excess cash on short-term investments. The Group has two major customers representing 31% of total accounts receivables as at 31 December 2016 (34% as at 31 December 2015). The rest of the balances do not have significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The Group continues to review its credit policy in line with developments of its liquidity risk.

The credit assessment is being made to check the credit worthiness of major customers prior to signing the contract/accepting their purchase order. Accounts receivable are carried net of provision for doubtful debts.

The credit quality of financial assets that are neither past due nor impaired are being assessed by reference to customers with appropriate and strong credit history, with minimal account defaults and where the receivables are fully recovered in the past. The Group recognizes provision for impairment of accounts receivables that are assessed to have a significant probability of becoming uncollectible and considering historical write-offs. Credit and Collection Operations provide inputs on the aging of the financial assets on a periodic basis.

22.3 Foreign currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's transactions are principally in Saudi Riyals and US Dollars.

The management closely and continuously monitors the exchange rate fluctuations. Based on its experience, the management does not believe it is necessary to hedge the effect of foreign exchange risks as most of the transactions are in Saudi Riyals and US Dollars.

22.4 Fair value and cash flow commission rate risk

Fair value and cash flow commission rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing commission rates on the Group's financial positions and cash flows. The Group's exposure to market risk for changes in commission rates relates primarily to the Group's borrowings which were acquired to finance working capital requirements and capital expenditures. These borrowings are re-priced on a periodic basis and expose the Group to cash flows commission rate risk. The Group's practice is to manage its commission cost through optimizing available cash and minimizing borrowings. When borrowing is necessary, tenor of borrowings is matched against the expected receipts. There is regular review of commission rates to ensure that the impact of such risk is mitigated.

22.5 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 management closely and continuously monitors the liquidity risk by performing regular review of available funds, present and future commitments, operating and capital expenditure. Moreover, the Group monitors the actual cash flows and matches the maturity dates of its financial assets and its financial liabilities.

22.6 Price risk

The Group is not exposed to equity securities price risk as it does not currently have significant investments in equity securities as at 31 December 2016.

22.7 Fair value

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

23. COMMITMENTS AND CONTINGENCIES

23.1 Commitments

The Group has capital commitments resulting from contracts for supply of property and equipment, which were entered into and not yet executed at the consolidated balance sheet date in the amount of Saudi Riyals 2.4 billion as at 31 December 2016 (31 December 2015: Saudi Riyals 4.5 billion).

23.2 Contingent liabilities

The Group had contingent liabilities in the form of letters of guarantee and letters of credit amounting to Saudi Riyals 658 million as at 31 December 2016 (31 December 2015 Saudi Riyals 427 million).

The CITC's violation committee has issued several penalty resolutions against the Group which the Group has opposed to in accordance with the Telecom regulations. The reasons of issuing these resolutions vary between the manner followed in issuing prepaid SIM Cards and providing promotions that have not been approved by CITC and/or other reasons.

Multiple lawsuits were filed by the Group against CITC at the Board of Grievances in order to oppose to such resolutions of the CITC's violation committee in accordance with the Telecom regulations, as follows:

- There are (355) lawsuits filed by the Group against CITC amounting to Saudi Riyals 647 million as of 31 December 2016.
- The Board of Grievance has issued (173) preliminary verdicts in favor of the Group voiding (173) resolutions of the CITC's violation committee with a total penalties amounting to Saudi Riyals 447 million as of 31 December 2016.
- Some of these preliminary verdicts have become conclusive (after they were affirmed by the appeal court) cancelling penalties with a total amounting to Saudi Riyals 375 million as of 31 December 2016.

In addition, 17 legal cases were filed by the Group against CITC in relation to the mechanism of calculating the governmental fees and other subjects in which (11) of them are specifically related to the governmental fees as of 31 December 2016. The Group received two preliminary judgements and five final judgments in its favor of these cases. The remaining cases are still being adjudicated before the Board of Grievance.

The Group received additional claims from CITC during 2016 and has reassessed the provisions required against the claims as at the year ended 31 December 2016 and has recorded an appropriate estimate of the amount that it may ultimately have to pay to settle such claims.

The Group is subject to litigation in the normal course of business. Management and Directors believe that it has adequate and sufficient provision based on the status of these litigations as of 31 December 2016.

Furthermore, there are 167 lawsuits filed by some of the shareholders against the Group before the Committee for the Resolutions of Security Disputes and still being adjudicated by such committee. The Company has received (37) preliminary verdicts and (107) final verdicts in its favor in these lawsuits and (12) cases have been either dismissed or abandoned and (11) cases are on-going as of 31 December 2016.

24. SEGMENT INFORMATION

The Group's operations are substantially comprised of mobile telecommunication services of which the consumer, business and other segments represent 82.90% and 17.10% respectively, of the Group's revenues for the year ended 31 December 2016 (31 December 2015: 84.31% and 15.69%, respectively). The Group views its assets and liabilities on an integrated basis without segregation for each operational segment. Furthermore, all of the Group's operations are principally conducted in the Kingdom of Saudi Arabia.

25. RECLASSIFICATIONS

Certain comparative figures have been reclassified to conform with the current year presentation as follows:

Balance sheet	Balances previously reported 31 December 2015	Balances reclassified 31 December 2015
Prepaid expenses and other assets	2,704,070	1,722,022
Capital advances	-	982,048
Current portion of long term loans and notes payable	5,848,773	5,766,262
Long term loans and notes payable	8,426,042	8,508,553

The Group's management believe that the reclassifications shown above more accurately reflect the Group's financial position for the previous year.

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