موبايلي
mobily
Innovate your world

2014
ANNUAL REPORT

Custodian of the Two Holy Mosques
King Salman bin Abdul Aziz Al Saud

His Royal Highness Crown Prince Mohammed bin Nayef bin Abdul Aziz Al Saud, Deputy Premier, Minister of Interior and Chairman of the Council of Political and Security Affairs

His Royal Highness Deputy Crown Prince Mohammed bin Salman bin Abdul Aziz Al Saud, Second Deputy Premier, Minister of Defense and Chairman of the Council of Economic and Development Affairs

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BACKGROUND AND INTRODUCTION

Etihad Etisalat Company (Mobily), is a Saudi joint stock company, incorporated pursuant to the Council of Ministers' resolution number 189 dated Jumada Al Thani 23, 1425 H (corresponding to August 10, 2004) and Royal Decree number M/40 dated Rajab 2, 1425 H (corresponding to August 18, 2004) and is registered in Riyadh under commercial registration number 1010203896 dated December 14, 2004.

The Company is the second authorised provider of mobile telecommunication services in Saudi Arabia. The company's share capital, amounting to SAR 7.7 billion, consists of 770 million shares of SR 10 each, paid in full as at December 31, 2014.

During 2007, the company invested in 99.99 percent of the share capital of a subsidiary company, Mobily InfoTech Limited, incorporated in Bangalore, India, which began commercial activities during 2008. In early 2009, the remaining 0.01 percent of the subsidiary's share capital was acquired by National Company for Business Solutions, a subsidiary company.

During 2008, the company acquired 99 percent of the partners' shares in Bayanat Al-Oula for Network Services Company, a Saudi limited liability company. The acquisition included the company's rights, assets, obligations, commercial name as well as its current and future trademarks for a total price of SR 1.5 billion, resulting in goodwill of SR 1.47 billion on the acquisition date.

In 2008, the company also invested in 95 percent of the share capital of a subsidiary company, National Company for Business Solutions, a Saudi limited liability company, and acquired 96 percent of the partners' shares in Zajil International Network for Telecommunication Company, a Saudi limited liability company. The acquisition included the company's rights, assets, obligations, commercial name, and current and future trademarks for a total price of SR 80 million, resulting in goodwill of SR 63 million on the acquisition date.

During 2013, Mobily and Etihad Jawraa Telecommunications and Information Technology Company (Eithad Jawraa) entered into a mobile virtual network operator (MVNO) agreement, whereby Etihad Jawraa shall use Mobily's network infrastructure to provide mobile services to its retail customers as an MVNO, after obtaining the necessary licence from the governmental authorities.

In 2014, Mobily completed the formalities to acquire 100 percent of a new subsidiary, Mobily Ventures Holding SPC, located in Bahrain, and 60 percent of Mobily Plug & Play. The remaining 40 percent is owned by Plug & Play International, a company incorporated in the USA.

Formalities were also completed to acquire a 90 percent of Sehati for Information Services Company (the balance is held by Mobily subsidiary Bayanat Al-Oula), and 100 percent of the UAE-based National Company for Business Solutions FZE.

Negotiations to acquire a stake in Etihad Atheeb Telecom (GO Telecom), initiated in 2013 through Mobily's subsidiary Bayanat Al-Oula, were cancelled and the transaction will not proceed.
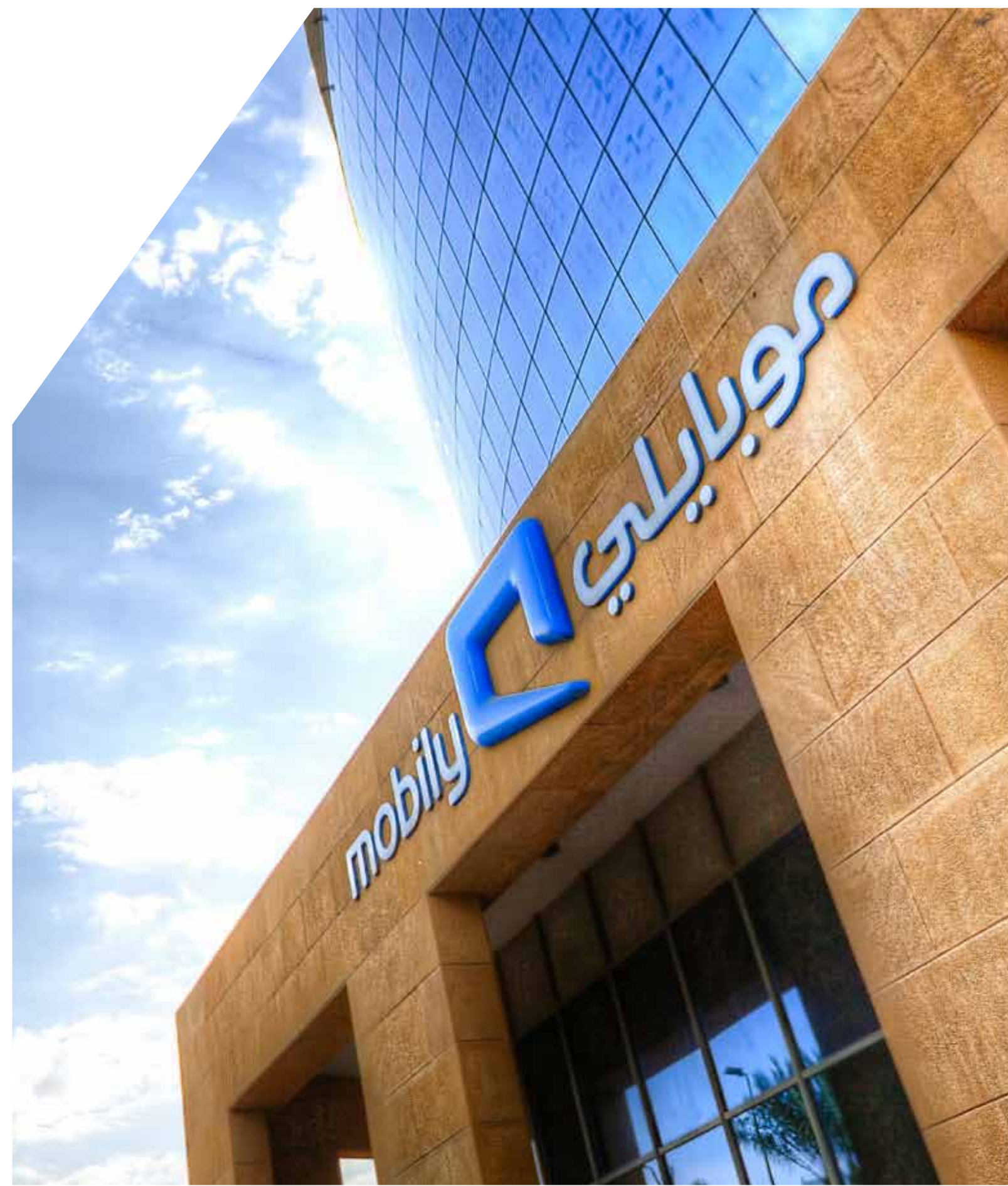
MOBILY AND THE SAUDI ECONOMIC ENVIRONMENT

While the Saudi Arabian economy slowed down in the final quarter of 2014, the Kingdom's large foreign exchange reserves and low public debt give considerable maneuvering room.

However, the low oil price environment and shrinking government revenues are expected to weigh heavily on economic performance. Taking this into account, economists are projecting 3.4 percent real GDP growth in 2015.

Range-bound crude oil prices between $70/bbl and $100/bbl could materialise during the medium-term, which will weigh negatively on oil revenues and reverse the hefty fiscal and current account surpluses of recent years. The higher budget break-even oil prices will make the government more prudent and conservative, economists predict. Nevertheless, the substantial net foreign assets and debt capacity will act as buffers that smooth out the business cycle.

The sluggish contribution by the oil sector will be offset by non-oil GDP growth that is expected to average around 4.3 percent during 2015-2019 as most sectors (particularly manufacturing and construction) continue to reap the benefits of the many projects still coming on-stream from the 2008-2013 SR1.2 trillion capital expenditure boom.

Since the royal decrees announced in 2011, the annual growth in government expenditure has fallen from 26.4 percent to 12.7 percent, coupled with a similar reduction in the budget overrun from 42.5 percent to 28.7 percent between 2011 and 2014. Hence it is believed that government expenditures will plateau, resulting in relatively lower direct and indirect stimuli.

The contraction in the oil sector, given an expected reduction in crude production by around 200,000 b/d, will largely be offset by the non-oil private sector which is estimated to grow by 4.0 percent.

In 2014, Saudi Arabia's fiscal balance recorded the first deficit since 2009 at SR54 billion, with about 1.9 percent of GDP affected by lower oil revenues and increased expenditures.

Based on 2010 prices, the Saudi economy accelerated by 3.6 percent during 2014 outperforming 2013's growth of 2.7 percent. The non-oil sector underpinned the economy by growing around 5.7 percent year-on-year, driven by construction, trade, and manufacturing that respectively grew by 6.7, 6.0, and 6.5 percent.

The 2015 budget estimates revenues at SR715 billion and expenditures at SR860 billion and continued to emphasize human and physical capital expenditures to support sustainable and balanced growth. A deficit is projected for 2015 as suppressed oil markets pressure the Kingdom's fiscal balances. The Kingdom's domestic debt continues to reflect a strong and healthy economy as it reached SR44.1 billion, which is 1.6 percent relative to GDP.

Even though the government is able to pay off the entirety of its debt, it opted out from such direction given the low cost of servicing debt. The preference is to finance expenditure plans at home or to diversify investments abroad.

The 2015 budget continues to reflect the government's focus on long-term sustainable development that requires investment in infrastructure, education, healthcare, and social and economic development projects. Education and training are central to this strategy, receiving 25.2 percent of total allocations, with health accounting for 18.6 percent.

The extensive Saudization efforts have added about 650,000 new jobs in the private sector since 2011 – a gain of about 75 percent – and the number is bound to rise further this year to bring Saudis' participation close to the two million mark, according to post-budget estimates.

From Mobily's perspective, Saudi Arabia continues to be at the forefront of the ICT revolution and the accompanying socio-economic impact. The total number of mobile users reached about 51 million in 2014, with pre-paid subscriptions accounting for 86 percent of the mobile market.

The huge growth of broadband internet has brought the total number of users to about 16.5 million, confirming the excellent growth of ICT in Saudi Arabia. Prepaid mobile subscription, internet users, and mobile data users are increasing daily.

Industry analysts forecast that the Kingdom's IT Market will top $14 billion by 2017, with Government investment transforming the innovation economy and enhancing development, business growth and productivity.

Overall spending in the Middle East's largest IT market is set grow by 23 percent from $11.5 billion in 2014 to $14.2 billion in 2017 according to International Data Corporation (IDC), the authoritative industry researcher. Government will be the fastest-growing vertical in this period, with a compound annual growth rate of 12.9 percent.

With the Kingdom ranked sixth in the world in government ICT usage, according to the World Economic Forum's Networked Readiness Index 2014, government-led ICT investment in e-services and infrastructure investment is fuelling Saudi's knowledge-based economy growth, boding well for Mobily which is already well-established as a market leader in the sector.

OUR VISION, MISSION AND OBJECTIVES AND VALUES

Our vision

Enriching your life by continuously leading and innovating in communications services.

Our mission

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

Our objectives

- To be the best work environment in the region by caring for our employees first
- To be Number One at delighting our customers.
- To maintain leadership in data applications and services

Our values

- Pioneering
- Respectful
- Passionate
- Empowering
- Reliable

BOARD OF DIRECTORS

Suliman bin Abdulrahman Al-Gwaiz (Chairman)
BSC in business administration, University of Portland, (USA). Governor of the General Organisation for Social Insurance; Chairman of Banque Saudi Fransi.

Abdulaziz Saleh Al Saghyir
BSc in civil engineering, University of Kansas, USA; Chairman, Abdulaziz Alsaghyir Commercial Investment Company.

Khalifa Hassan Khalifa Al Shamsi
BSc in electrical engineering, Kentucky, USA. Chief Executive Officer, Etisalat Group.

Mohamed Hadi Al Hussaini
Master's degree in international business, Webster University, Switzerland. Chairman of Emirates Financial Services, Etisalat, Economic Zones World, and Dubai Real Estate Corporation

Abdullah Mohammed Al-Issaas
Bachelor's and master's degrees in engineering. Independent Director of Etihad Etisalat Company

Serkan Okandan (Deputy Chief Executive Officer)
Bachelor's degree in economics, Bogazici University, Turkey. Chairman of Audit Committee at Etisalat Group, UAE.

Ahmed Abdulkarim Julfar
BSc in civil engineering, Gonzaga University, Washington, USA. Chief Executive Officer, Etisalat Group; Chairman, E-Vision.

Ibrahim Bin Mohammed Al Saif
Master's degree in economics, Southern California University, USA. General Manager, Investment Division, General Organisation for Social Insurance; Board Member, SAFCO.

Abdulaziz Hamad Abdulaziz Aljomaih
BSc in architectural engineering, King Saud University, KSA, master's degree in general administration, University of California, USA. Assistant Vice-President, Aljomaih Holding Company; Vice-Chairman, Arcapita Bank, Bahrain.

EXECUTIVE MANAGEMENT

Saleh Bin Nasser Al Jasser
MSc in civil engineering, King Saud University, Riyadh, BSc in industrial engineering, King Abdul Aziz, Jeddah. Board Member, Saudi Research and Marketing Group.

Mohammed Ibrahim Al Mansour
MSc in computer science, West Michigan University USA. Chairman and CEO, Knowledge Net Computer Company.

Abdulrahman Abdullah Alfehaid
Bachelor's degree in telecom engineering, King Saud University, KSA. Former Deputy Governor for Regulatory Policies and Licensing Affairs. Saudi Arabian Communications and Information Technology Commission.

Mubarak Rashed Al Mansouri
Master' s degree in finance, University of West Florida, USA. Chief Executive Officer, Emirates Investment Authority.

Isa Abdulrasool Al Haddad
Master's degree with a higher diploma in telecom engineering from the UK. Chief Commercial Officer of Etisalat Group, UAE; Board Member, Etisalat Nigeria.

Serkan Okandan
Deputy Chief Executive Officer

Faiez Awadh
Chief Human Resources Officer

John Saad
Chief Consumer Officer

Ahmed Alhosani
Acting Chief Business Support Officer

Amer Mowafi
Chief Wholesale & Carrier Services Officer

Maziad Alharbi
Acting Chief Technology Officer

Karl Henneking
Chief Corporate Strategy and M&A Officer

Ismail AlGhamdi
Acting Chief Business Officer

Adel Al-Yagout
General Manager Customer Care Operation

Abdullah Al Rowais
Chief Audit Officer

Alexandros Paterakis
Chief Information Officer

MILESTONES IN MOBILY'S HISTORY

2004

- Etihad Etisalat awarded Saudi Arabia's first 3G and second GSM licences
- Build-out of GSM network begins
- Initial public offering of 20 million shares oversubscribed 51 times

2005

- Launch of the commercial name, *Mobily*
- Signing of the interconnect agreement with Saudi Telecommunications
- Launch of commercial GSM services in 32 cities
- Coverage of 79.2 percent of the population achieved
- Number of subscribers reaches one million
- Positive EBITDA achieved

2006

- 3.5G service launched – first in Saudi Arabia
- Partnership signed with ITC and Bayanat Al-Oula to build 12,600 km advanced fibre-optic network
- Mobily turns cash-flow positive
- Subscribers total more than six million representing, more than 30 percent market share
- Population coverage exceeds 90 percent
- Mobily available at more than 3,600 points of sale

2007

- Net income, before Zakat, doubles to SAR 1,404 million
- Earnings per share grow 97.14 percent from SR 1.40 to SR 2.76
- Islamic financing of SR 10.78 billion
- Investment SR 1 billion to enhance 3.5G network
- Acquired 99.9 percent of Bayanat Al-Oula
- 4,843 base stations, 993 of them 3.5G capable
- More than 11 million subscribers achieved

2008

- Net profit increased 52 percent over 2007
- First dividend paid out to shareholders.
- Mobily joins a consortium for international expansion of the national fibre-optic network
- Exclusive national roaming agreement signed with a new entrant into the Saudi telecom market, Zain Saudi Arabia
- Mobily's mobile data network acknowledged as the busiest in the world.
- 300,000 HSPA subscribers signed up in 18 months with 3.5G coverage reaching 70 percent of the population.
- 3.8 million new subscribers added despite the entry of a third service provider.
- Capital increased by SAR 2 billion in a 200 million shares rights issue (2.3 times subscribed)
- More than 7,800 customer touch points, including dealers and preferred dealers

2009

- Stock performance at 40 percent growth for the year outperforms Tadawul Telecom and All Share (TASI) indices
- Mobile broadband subscribers top one million mark and usage grows to 50 terabyte per day compared to 19 at the end of 2008
- HSPA revenue increases by 159 percent year-on-year and coverage reaches 80 percent of the population
- Mobily participates in the Tata Global Network (TGN) Gulf Cable System.
- iPhone 3G and 3GS introduced
- Net profit up 44 percent, revenue up 21 percent
- Total number of subscribers reaches 18.2 million.
- Mobily wins the Dale Carnegie Leadership Award
- SAR 1.5 billion refinancing and SR 900 million infrastructure financing packages arranged
- Dividend of SR 1.25 per share declared compared to SR 0.75 per share for the previous year

2010

- SR 3 billion increase in revenues, the highest in absolute terms since inception, representing year-on-year growth of 23 percent
- 60 percent increase in dividend to SR 2.00
- 92 percent broadband population coverage
- Post-paid revenues up by 50 percent and business revenues more than double
- Broadband subscribers exceed 2.3 million
- 46 percent increase in traffic during the Haj, with a record 1.48 million users registered on the network in the Holy Site of Mina on the first day of Eid

- SR 1.2 billion Murabaha financing facility at a competitive rate to expand and upgrade current data infrastructure capabilities
- Collaboration with six telecom operators to build the longest terrestrial communications infrastructure along a 7,750 km round trip route connecting Europe to the Middle East

2011

- SR 10 billion refinancing scheme drawn up with seven local banks to replace existing short, medium, and long term loans with one loan consisting of four tranches over five to seven years
- New dividend policy with quarterly distribution instead of half-yearly
- Renewal of management agreement for a further five years with founding company Etisalat (UAE)
- First implementation of Long Term Evolution 4G LTE network
- New Ladies Contact Centre opened in Jeddah
- Launch of Best Customer Experience initiative (CEX) to provide the best possible telecom experience

2012

- Record annual net profits and dividend distribution
- Board approval of 10 percent increase in share capital
- Capital expenditure of SR 22 billion planned
- Growth partnerships created with leading international companies to spearhead transformation to ITC environment
- Substantial growth in revenues from the business sector and data services
- SR 10 billion refinancing completed to replace existing loans on more favourable terms
- Comms MEA Operator of the Year award

2013

- Sustained growth in revenues from data services and business sector
- Opening of first Tier IV certified data centre in Asia, Middle East, North Africa
- Launch of managed security services in collaboration with IBM
- Launch of cloud computing services in collaboration with Virtustream
- More than 2,040 new 4G sites added
- 530,000 households connected to fibre-optic network
- Award-winning $650 million Shariah-compliant vendor financing deal
- Several multi-million smart city infrastructure contracts signed
- AMEC Best of the Best in Social Media platinum award

2014

- SR 6 billion investment in network expansion and upgrade
- Launch of cloud computing services in collaboration with Virtustream
- Establishment of Mobily Ventures to invest in high-tech startups
- First to market the latest smart devices in the Kingdom, such as the iPhone 6
- First company in the world to offer 4G data roaming services

CHAIRMAN'S REPORT

LOOKING FORWARD WITH CONFIDENCE

Great companies seldom have an uninterrupted success trajectory. The world of business is always uncertain and one of the few constants is that setbacks will almost inevitably be encountered along the way.

In Mobily's case, we have had a distinguished decade of consistent growth. Had our performance been erratic, perhaps the issues that arose towards the end of 2014 would have been less cause for concern.

However, it is also the mark of great companies that setbacks are confronted realistically and pragmatically, acknowledging that they have occurred and taking appropriate remedial measures. This has been Mobily's response, and I believe that our Company is even stronger as a result and will quickly resume the performance that has for so long been our hallmark.

The fundamentals that underpin our achievements are unchanged: an unrivalled nationwide telecoms network, industry-leading ICT technology, and global partnerships that give us a distinctive edge in securing a leading share of valuable new markets. In turn, these fundamentals have shaped our strategic response to the events of 2014.

Our energies will be applied 80 percent to future matters and 20 percent to learning from the mistakes that have been made. We will concentrate on projects that generate financial flows and the most important pillars of customer experience: the quality of network services and the quality of billing services.
Neither should deteriorate as a result of recent events; instead we will devote ourselves to their improvement and further development.

Over the next two years our focus will be on reversing the decline in revenue trend, stabilising in 2015 and growing in 2016 by defending our consumer share and growing our share of the business segment. Operationally, we are taking measures to improve efficiency and generate savings in expenditure by striving for ever-higher standards of excellence, while re-sizing and close capability gaps within the organization.

We are fortunate to have developed a substantial base of assets and resources, and our goal is to unlock value from these assets by generating savings on capital expenditure and maximising our return on fixed assets and cash liquidity.

Over 2016-19, our focus will be on further growth in our key strengths, increasing our value share in mobile data and in fibre-to-the-home and fibre-to-business while enhancing overall market share in the business segment.

We will continue to invest in business ICT, growing our share in cloud and hosting services and acquiring capabilities for system integration.

And innovation – another long-standing Mobily characteristic – will again feature strongly, innovating beyond the core by growing consumer digital services, e-commerce, and what is known in our industry as OTT (over-the-top) content such as delivery of audio, video, and other media over the internet.

As I said earlier, Mobily's fundamentals are very sound and would be the envy of many competitors. Add to this a clear sense of direction and a refreshed and invigorated management team who are intensely focused on achieving well-defined goals. This represents a formidable combination of resources and I am confident that together they will more than fulfil the expectations of shareholders, investors, and the markets.

On behalf of the Board, I convey our gratitude to our shareholders for their trust, support, and contribution to the Company, and acknowledge the loyalty and confidence of our customers, who are such an essential part of our continued success.

The Board of Directors also expresses sincere appreciation to the Custodian of the Two Holy Mosques, King Salman bin Abdulaziz Al-Saud; His Royal Highness Prince Muqrin bin Abdulaziz Al-Saud, the Crown Prince, Deputy Premier, and Minister of Defence; the Second Deputy Premier, Advisor, and Special Envoy of the Custodian of the Two Holy Mosques; and all Government ministers for their wise leadership and guidance of the national economy.

We also thank the Ministry of Communications and Information Technology and the Communications and Information Technology Commission for their oversight and stewardship of the regulatory environment, and the Capital Market Authority for their invaluable guidance.

Sulaiman Al Gwaiz
Chairman

DEPUTY CEO'S REVIEW

Decisive response to trying circumstances

Transparency, disclosure, and openness have been the guiding principles in Mobily's management of the difficulties experienced towards the end of 2014.

There can be no denying that errors were made in the recognition of revenue in the second half of 2013, with subsequent impact on our 2014 results. We have acknowledged these errors and their implications are fully detailed in our 2014 financial statements and accompanying notes.

In essence, we have restated certain 2013 figures, resulting in a reduction in net profit for the year. Further reassessment in the course of a rapidly-changing environment led us to mitigate medium and long-term risks by taking a one-off impairment provision in our 2014 results, thus reporting a loss for the year. Consequently, the Group was not expected to meet a certain financial covenant under its long-term financing facilities with various lenders.

A stronger company

Mobily's response has been decisive and emphatic. The blows we have suffered, although serious, are far from mortal and the Group has the strength and the resilience to absorb them and emerge even stronger as a result.

Our headline numbers may not be what we them to be – or planned to be – but we have taken decisive action, strategically and operationally, to reset our course towards sustaining the achievements that are integral to Mobily's tradition.

Our strategic choices are defined by several factors: the strength of the Mobily brand, the scale and efficiency of our network, the quality of the human capital that has been behind our success for the past decade, the support of the eco-system in which we operate – bankers, lenders, and partners – and of course, the absolute commitment of our biggest shareholders.

In the current context, this latter point is particularly important and relevant. Etisalat, with a 27.4 percent stake, is not only our biggest single shareholder but a valued partner. Our service agreement gives us a global umbrella in telecoms access and expertise and has been a vital contributor to our growth. Saudi Arabia's General Organization for Social Insurance (GOSI) is our next biggest shareholder with 11.80 percent, and there too we are assured of continued support. Our Chairman, Mr Sulaiman Al Gwaiz, is also the Governor of GOSI, further cementing the relationship between our two organizations.

Investing for the future

Mobily's continued commitment to strengthening and expanding the network is evident in our 2014 investment of SR 6 billion, enabling us to defend our market leadership, nationally and in our sector. Similarly, our investment in data centres is maintaining our distinct market advantage.

Our Melgha II data centre in Riyadh is still the first and only Tier IV certified facility in the Middle East, Asia, and North Africa. This endorsement by the Uptime Institute, the global accreditation authority, gives our customers independent assurance of the security and reliability of our data centres. Three more have Uptime accreditation at a lower tier level.

Our resources and leadership in this specialist area of ICT was a major contributory factor in winning one of the biggest tenders to be awarded in our sector during 2014.

This was for a project by the Council of Cooperative Health Insurance (CCHI), which is establishing an electronic integration platform for the health insurance industry that interconnects all health insurance stakeholders through a technology solution called SHIB (Saudi Health Insurance Bus).

The scope of the 10-year contract is to build, develop, and operate the SHIB platform which will serve 28 health insurance companies, 2,190 health care providers, and eight third-party administrators. It will also serve the Ministry of Health, Ministry of Interior, Saudi Food and Drug Authority, Health Services Council, Saudi Commission for Health Specialties, Ministry of Labour, SADAD, Saudi Association for Health Informatics, and the Saudi Arabian Monetary Agency.

To be awarded such a prestigious and long-term project underlines Mobily's capabilities and competence and market faith in the Company.

In terms of our covenant with lenders, negotiations are continuing and we are confident of reaching a satisfactory conclusion by the end of the second quarter of 2015.

Loyal and dedicated support

Customers, of course, are always a primary concern and their preference and support for Mobily is very evident from social media statistics. Our YouTube channel has the biggest number of subscribers in the Middle East, we are world leaders within the telecoms industry in our number of Google+ followers, and more than 1.4 million Facebook users like Mobily's pages.

These statistics, compiled by independent industry audits, reflect the Company's successful management of customer relations and the value of constant communication with subscribers. This relationship is not restricted to providing attractive and high-quality products and services; we also seek to give our customers some extra benefits.

For example, we sponsor the Saudi national football team as well as the two big teams form the Central Region – Al Hilal and Al Naser – which between them have by far the biggest fan base in the Kingdom. We also support 13 sports teams and Olympic committees and the Saudi School League. Many more customer and community related activities are detailed in the Corporate Social Responsibility section of this report.

In closing, I must stress that while we do face short-term challenges, I am excited about the future. We see many opportunities for the medium-term and beyond. And as we progress further into a new era of telecoms technology and customer expectations, we believe we are uniquely placed to lead.

To achieve our goals, the most important resource we have is our colleagues, who work unfailingly to meet the needs of customers. On behalf of the management team, I am very happy to express our gratitude to each and every one of them for all they have done, especially in the trying circumstances we have experienced in recent times.

Serkan Okandan
Deputy Chief Executive Officer

FINANCIAL

Restatement of financials affects 2014 results

The Group has restated revenue, net income, retained earnings, and retained balances for the year ended December, 2013 as a result of an error in the timing of revenue recognition. The restated figures are therefore used for 2013 and 2014 comparisons. In addition, the company has reissued its financial statements for 2014 due to the change in accounting policy for revenue recognition for certain transactions including finance leases, and the accounting for net property and equipment.
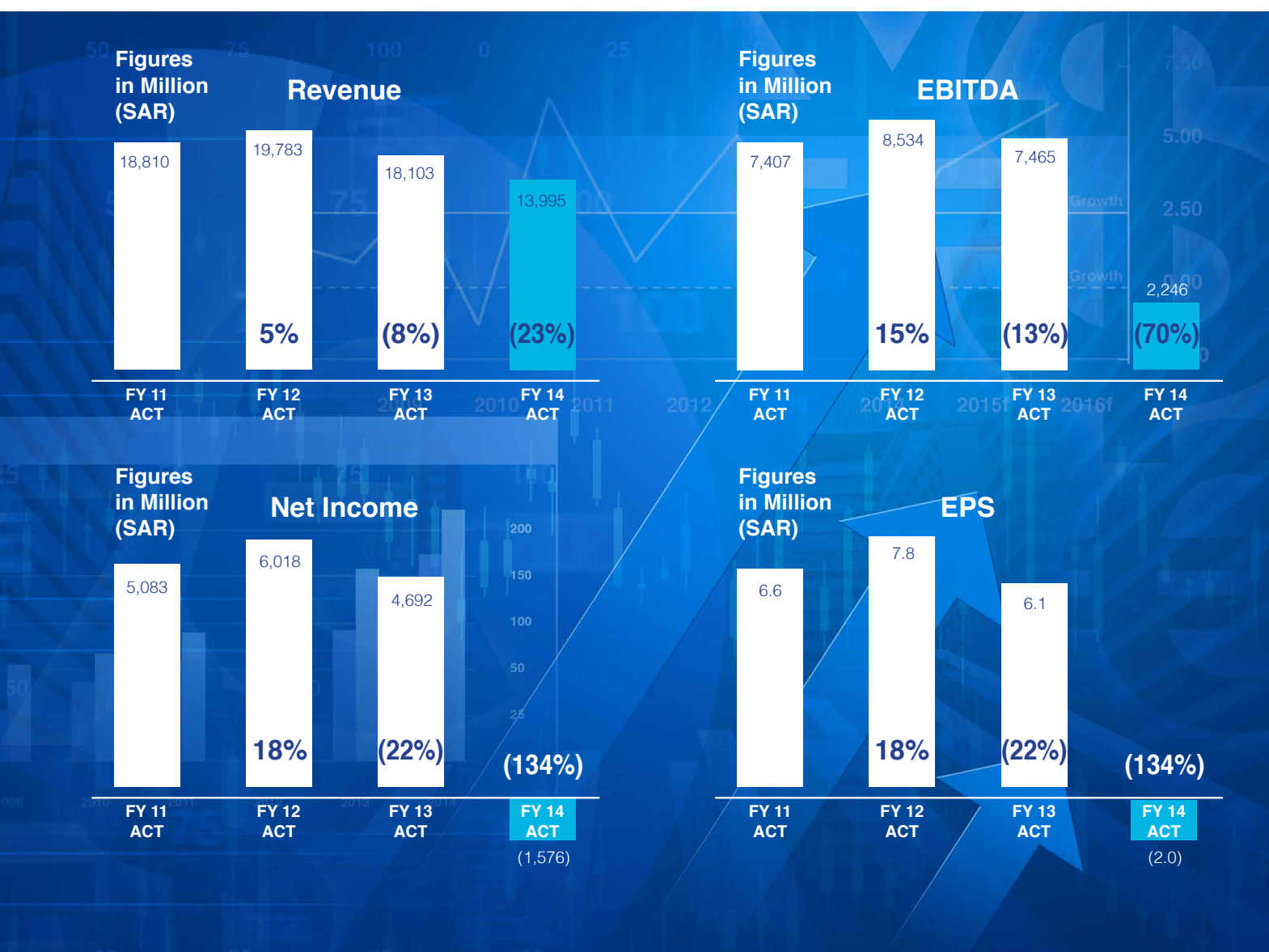
Net profit of SR 6,677 million for 2013 has been restated to SR 4,692 million and earnings per share from SR 8.67 to SR 6.09. Total revenues for 2013 have been restated from SR 25,190 million to SR 18,103 million.

As a result of the Company breaching a certain financial covenant under its long-term financing facilities with various lenders, such long-term loans and notes payable have been reclassified under current liabilities as at December 31, 2014.

The Company is engaged in discussions with the lenders to obtain a reset of the relevant covenant and has confirmed to the lenders that it will continue to service its debt obligations in terms of the existing agreements.

Based on additional information and revised assessments in 2014, the Company recorded a net loss of SR 1,576 million for the year. The Board recommended dividends of SR 2.50 in the first two quarters of 2014, but resolved to pass dividend distribution for the third and fourth quarters.

Full details of the adjustments to revenue and net income are given in the consolidated financial statements for the year to December 31, 2014 and the accompanying notes which form part of this annual report.

The Board of Directors has requested the Audit Committee to identify the responsibilities towards the announced errors in 2014 and to take all necessary actions and for the sake of independency, transparency, and in accordance with best practices applied in such circumstances for the benefit of the shareholders and the Company.

Furthermore, the Capital Market Authority has appointed a specialized team to review the company's financial statements. Afterwards, the team has submitted a summary of the preliminary report containing the observations reached. Subsequently, by studying these observations, the Board of Directors decided to reissue the adjusted consolidated financial statements for 2014.

With regard to receivable amounts due to Mobily resulting from the service agreement signed with Zain KSA in May 2008 for services including national roaming, site sharing, transmission links, and international traffic, both parties have appointed their respective arbitrators.

Mobily could not reach an amicable settlement with Zain, although many goodwill startups were provided from Mobily's side. To protect the Company's rights, Mobily decided to revert to arbitration.

Under the terms of the service agreement, an amount of SAR 2.2 billion was due to Mobily as of November 30, 2013. Mobily has since been attempting to reach an amicable settlement with Zain.

Over the coming two years, Mobily is set to further accelerate, modernize, and expand its LTE-4G, 3G, and 2G networks. To do so, the Company signed financing agreements during 2014 with the Swedish Export Credits Guarantee Board and the Export Credit Agency of Finland for a total of SR 2.1 billion, without any guarantee from the company.

The long-term vendor financing will enable sourcing of telecommunications equipment from Ericsson and Nokia Siemens Networks. The appointed banks are Credit Agricole, Deutsche Bank, and Societe General as mandated lead arrangers.
The facilities are Shariah-compliant and will be used over 1.5 years. Both loans have a 10-year term,

Revenue
Figures in Million (SAR)

	FY 11 ACT	FY 12 ACT	FY 13 ACT	FY 14 ACT
Value	18,810	19,783	18,103	13,995
Growth		5%	(8%)	(23%)

EBITDA
Figures in Million (SAR)

	FY 11 ACT	FY 12 ACT	FY 13 ACT	FY 14 ACT
Value	7,407	8,534	7,465	2,246
Growth		15%	(13%)	(70%)

Net Income
Figures in Million (SAR)

	FY 11 ACT	FY 12 ACT	FY 13 ACT	FY 14 ACT
Value	5,083	6,018	4,692	(1,576)
Growth		18%	(22%)	(134%)

EPS
Figures in Million (SAR)

	FY 11 ACT	FY 12 ACT	FY 13 ACT	FY 14 ACT
Value	6.6	7.8	6.1	(2.0)
Growth		18%	(22%)	(134%)

priced at a competitive fixed rate of 2.4 percent per annum, and will be repaid in 17 semi-annual equal instalments.

During the year, Mobily also signed a long-term vendor financing agreement with Canada's export credit agency – Export Development Canada – for $200 million (equivalent to SR 750 million) with no corporate guarantee.

The Shariah-compliant financing will fund acquisition of telecommunications equipment from Alcatel-Lucent to upgrade and enhance Mobily's network. Credit Agricole, Societe Generale, and Bank of Tokyo Mitsubishi were the mandated lead arrangers.

The facilities have a total term of the 10.5 years and will be used over two years. The loan was priced at a fixed rate of 2.52 percent per annum (with a 3.0 percent upfront premium) and will be repaid in 17 semi-annual equal installments.

OPERATIONS & TECHNOLOGY

Network enhancement continues

During 2014, Mobily invested a further SR 6 billion in upgrading and enhancing its network.

Coverage of more than 100 residential quarters in more than 20 cities with fibre optic network was completed, part of the ongoing plan to cover more than one million residential units with this advanced network that combines high-speed internet access with great reliability.

The network now covers more than 4,000 sites, with 4G extending to more than 78 percent of the Kingdom's inhabited regions and 3G reaching 97 percent.

Mobily has adopted a consistent strategy to expand its fibre optic network, designed to be the largest broadband network in the Gulf region. This is being realised through installing technical infrastructure, followed by the operation of the fiber optic network.

The company has also upgraded the cable networks of its cable landing stations at Jeddah and Alkhobar. These stations connect the Gulf to the TGN subsea cable system operated by Tata Communications. Mobily is the exclusive landing party in Saudi Arabia for the Tata global network.

Due to Mobily's wide 4G/LTE and FTTH networks coverage, this cable upgrade will support its efforts in meeting the ever-growing demand for high-bandwidth voice and data services, lower latencies, higher uptimes, and seamless scalability.

The capacity will also help to support the continued expansion in broadband penetration, internet usage, and enterprise applications in this rapidly expanding emerging market region. The sub-sea fibre optic cable network not only offers east-west diversity, but provides Mobily with access to a global audience with outstanding quality of service for its customers.

Mobily is already providing the best cloud environment for more than 35 governmental and private sector agencies in accordance with the highest levels of reliability, security, and enabling them to deal with all kinds of applications. In this respect, Mobily enjoys strategic partnerships with the largest providers of cloud computing services globally, such as IBM and Virtustream, to bring the latest experience and expertise to the Kingdom.

The company's cloud computing services are based on several axes such as providing a variety of packages to meet the needs of governmental agencies and different scale of enterprise, providing high quality service through data centers that are linked through reliable and high speed networks and have obtained Tier III and Tier IV Certification.

Mobily has dispelled the fears and worries of several governmental agencies and business

enterprises about relying on cloud computing services such as the information security and control on the infrastructure of information technology. The design of cloud services provided by Mobily is characterized with high security specifications, flexible control in performance and provides significant advantages in the traditional infrastructure of governmental agencies and companies, taking into account that all data are stored and managed in the Kingdom under the applicable laws.

In this context, it is noteworthy that Mobily has become the first and major provider of cloud computing services in the Middle East and Turkey powered by Intel Cloud Technology, and that the company has obtained ISO27001 certification for the management of its information security operations center.

The technical transformation witnessed by Mobily has contributed to the innovation of new and efficient services to the business sector in the Kingdom, where business continuity solutions are considered to be among the most important.

In light of the increasing threats to many of the companies and important websites in the Kingdom and around the world, there is an urgent need for business continuity to enable companies to recover quickly from any technical disasters.

Mobily's Managed Backup Service ensures regular backups to enable a company to restore lost data quickly after any damage as a result of any emergency or disaster or in the event of disruption of the IT infrastructure. Likewise, the Virtualized Server Recovery Service which operates according to the smart cloud technologies that have practically and effectively succeeded in overcoming the technical obstacles faced by companies.

Overall, Mobily's business continuity solutions, offered in cooperation with IBM, it reduce data loss difficulties and the time needed to retrieve tlost data from servers. These services are also very cost-effective, as there is no longer a need to tie-up capital in special business continuity centres.

Subscribers can peg their forecast expenses, with payment based on the required services and the possible need for expansion, enabling the business sector to manage its financial affairs more efficiently than ever before.

STRATEGIC INNOVATION

Change sustains market leadership

The Mobily Change Project aims to maintain the company's leading role in the world market, while attempting to shift the market through providing innovative products, services, and solutions.

The project puts into practice Mobily's vision of change and transformation from being a mobile phone service provider to a company supplying comprehensive services in telecommunications and information technology.

The aim is to achieve success not only in basic services but to continue the task of developing new horizontal and vertical applications and have an influential role in telecommunication and information technology. This means a change in what is sold, and how it is sold – preserving Mobily's success and market leadership instead of just following others.

During 2015, Mobily will be able to reduce the time needed to get to market, a goal that will be achieved through high competitiveness – introducing new products and hitting revenue targets.

Mobily's in-house Innovation Centre undertakes extensive research with global partners to study new technology-related potential. Financial feasibility of ideas is assessed along with the practicalities of bring the product or service to market.

If it passes that test, it moves to the commercial readiness phase when a coherent model is developed, followed by researching consumer response and acceptability. The collaboration can range from three months to a year between initiation and final launch.

Three winners of the Mobily Ad Innovation competition for employees collected SR 55,000 in prize money. The overall winning concept centred on turning the Mobily logo into a world symbol of innovation through a simple hand gesture.

The 2014 launch of product development units involves – Product Planning & Capabilities Management, Product Experience Development & Management, and Product Quality Management – creates key enablers for the delivery of combined technical roadmaps for all customer care functions and shared services such as finance, HR, business support, and corporate governance.

The overall Technical Solutions Development Process (TSDP) covering all tracks has also been revised to align with the company-wide Target Operating Model, supported by the Corporate Process Excellence team and the champions of PH transformation.

Along with consultants Arthur D. Little, they are revising the TSDP which will define KPIs, followed by undertaking technical demand and capacity planning for 2015 considering the roadmap of all tracks.

In August, 2014, Mobily launched Mobily Ventures – a venture capital fund seeking to invest between $300,000 and $3 million in promising early-stage tech companies throughout the Arab region.

The project will explore investment in potential partner companies for marketing and product integration.

Two deals completed during the year are with Anghami, the Lebanese mobile and web streaming music platform, where users pay SR 7 a week for unlimited music streaming; and Easy Taxi which hires taxi drivers who need to be online and need a smart phone with a SIM card and a data plan.

Mobily's creation of the fund reflects the company's strategy to expand from the telecom sector towards the broader ICT and new data spheres.

CUSTOMERS

Benefits for education and business sectors

Mobily signed an agreement in 2014 to provide Princess Nora bint Abdulrahman University with high-speed internet services, a move aimed at building a knowledgeable society and to provide educational facilities through smart Communications solutions.

To ensure continuity, Mobily will provide the university with the latest internet technologies, along with contingency plans to keep the university in permanent connection with the network.

Mobily has already signed long-term contracts with many universities around the Kingdom, underlining the sector as a top priority for the company. This is enriching the educational process as the sector benefits from generous government spending.

Among the many universities where Mobily has provided advanced services are Taibah University in Medina, King Abdulaziz University in Jeddah, King Khalid University in Abha, University of Dammam, King Faisal University in Al Hasa, Islamic University of Medina, and King Abdullah University for Science and Technology.

To meet the growing demand from the small business segment, Mobily launched a new cloud computing offer as part of the strategic alliance with Virtustream, giving businesses and organizations the ability to deal with all kinds of applications.

Information security solutions developed in cooperation with major global companies provide the business sector with proactive protection from intrusions. These solutions vary from cloud security solutions to the management of information security operations centres.

Services include the management of network security, management of potential threats, mitigation of the hazards involved, management of network security equipment, monitoring and analysis of security event logs, and assessing the reported weak points.

Mobily also maintains the security of company websites and provides security protection for e-mail and denial-of-service attacks, supported by the first scrubbing centre in Saudi Arabia.

In continuation of the fruitful cooperation with Huawei, Mobily launched the Ascend P7, recently launched by the Chinese company, confirming Mobily's approach to enrich the Saudi market with the latest devices. Further product and service enhancements included the launch of 4G data plans, adding new features that address needs of subscribers – as well as five data plans that enable customers to subscribe to the best option for their data service requirements.

Subscribers who joined the Fallah programme – designed to meet the needs of young customers – received a free 3,000 calling minutes and 2GB per month for the first two months through a new promotion targeting the 15-25 age group. Youthful customers could add Fallah to any of their prepaid or postpaid packages by simply sending an SMS. Exclusive offers to Fallah users included discounts on meals, sportswear, and fashion items. Promotions on 4G Connect packages gave new and existing subscribers an up to 300 percent increase in the basic data package.

The Athan Ranan app changes the default tone during prayer time, according to the subscriber location, accompanied by a recorded message that users won't be answering any calls during that time. The Twitter Unlimited Package launching gives subscribers unlimited Tweets through the Twitter Mobile Webpage.

SALES & MARKETING

New services boost results

Despite the decline in the number of pilgrims due to the work-in-progress of the enormous expansion in the Al Haram in Mecca, the results of the 2014 pilgrimage season were better than expectations. Mobily's network recorded substantial growth in the number of international roamers in Makkah, Madina, and Menah – varying from 21 percent to 71 percent and confirming that Mobily is still the favourite network with international roamers.

The numbers of pilgrim subscribers rose by 18 percent, with the volume of international calls on the company's network rising more than 10 percent in Medina and 15 percent in Makkah. The biggest growth was in data transmission which peaked on the third day of the sacred ritual, up 60 percent on the corresponding day in 2013. Free wifi in the Holy Cities is now available from 1,300 sites.

In the new product arena, Mobily was the exclusive operator to launch the new Lenovo Vibe Z smart phone in Saudi Arabia. The Lenovo Vibe Z was offered with multiple options. The company also launched the new Motorola Moto G, aimed at people looking for a quality smartphone with a competitive price. And having been the first Middle East operator to launch the iPhone in 2009, Mobily followed up in 2014 with the introduction of the latest models – the iPhone 6 and iPhone 6 Plus.

Launch of the eLife One device for FTTH customers is another Middle East 'first' for Mobily. With unprecedented features, eLife one is specially manufactured for Mobily and is a unique step to recast the high-precision content provided by FTTH. The M2M platform (device to device solution) was executed in collaboration with Jasper International and represents a qualitative move in M2M services in the Kingdom.

Shariki Plus – the distributors' sales programme in the Western Region – was launched in Jeddah with the aim of motivating the sales performance of current distributors and attracting new distributors.

Distributors are placed in three categories – platinum, gold, and silver – providing financial rewards and other incentives that increases competitiveness and stimulate future sales. The program reflects Mobily's keenness to strengthen its partnerships generally, especially in sales and distribution, and supports the strategic objectives of enabling distributors to achieve sales targets, allocating round-the-clock technical support.

In the data services segment, Mobily signed a communications and IT services agreement with Al-Rajhi Bank that will provide the bank with SMS and data services and connect all branches through Mobily's fibre optic network.

Mobily will provide advanced connecting service with high technical specifications used mainly in transferring and exchanging information between data centres. The agreement continues the cooperation between Mobily and Al-Rajhi, having previously launched the cash deposit system for companies (GRG smart type) for the first time in the region. This is considered to be one of the world's most innovative electronic means to collect lock-box and deposit cash from big companies and stores.

Several major international agreements were signed during 2014. A marketing and sales agreement with Cisco will enable collaboration and the linking of competitive resources in a joint go-to-market strategy for ICT in Saudi Arabia. The two parties will jointly invest in and develop innovative

technology for managed services for corporate, small business, education, and healthcare sectors. Under a similar strategic partnership with Accenture, signed in New York, the companies undertake to jointly develop and provide ICT services in the Saudi market. New international roaming agreements with AT&T and Vodafone further enhance Mobily's already extensive worldwide roaming network.

Mobily was the first company worldwide to offer 4G roaming, now providing this service in 15 countries.

HR & SAUDISATION

Human factor a prime priority

In 2014, Mobily launched a new component in its growth, efficiency, and differentiation (GED) corporate strategy named GREAT – positioning the company as a leading information, communication and technology player by 2020.

This led to a major transformation initiative across all business units with the aim of bridging capability gaps and creating efficiencies and cross-functional synergies. In turn, the HR function was realigned under an updated and ambitious strategy: Building the Next Generation of Human Capital.

Living and breathing the mantra of "from good to great", HR developed four strategic programmes to implement the new strategy: a revised HR Operating Model, Building of ICT Generation, HR Analytics, and Employee Engagement and Branding Frameworks.

This led to the restructuring and consolidation of several existing departments, as well as the introduction of several new ones, with the corresponding assessment and re-deployment of concerned staff. Examples include:

- The successful launch of a Product and Business Development function, focused on product development, quality, and experience
- Centralised and standardised business and data intelligence across the company, leading to increased data accuracy and efficiency
- Consolidation of Consumer and Business Care functions to provide unified services

To cope with the ICT industry's fast-paced development, HR introduced new or updated policies to enable optimal staff development, performance management. and work-life balance, such as secondments, 'cloud' office, performance management, compensation, and career progression.

Mobily's aim to develop staff continued with remarkable success in 2014. Fully trained staff now total 1,883 (57 percent of the total workforce), with 17 training programmes delivered and 63 training sessions, adding up to 9,982 training days.

To secure a competitive position in the industry in terms of financial benefits, HR reviewed the company's rewards strategy and policy. This resulted in a new grading system with a corresponding salary scale mapped to the 75th percentile of the KSA market benchmark.

It also led to revised incentives schemes and enhanced housing and transportation allowances. Similarly, the education allowance was enhanced to cover all Mobily staff and increase the company's value proposition to existing and potential candidates. These measures, in addition to some retention tools, kept Mobily's attrition rate at about 6.0 percent in 2014.

Despite a shortage of skilled ICT professionals in the local market, HR successfully managed to meet the 2014 manpower plan, with 55 percent of new employees being Saudi nationals, about one-third assuming senior roles. This was facilitated by the launch of a new career portal aligned with the recruitment system and augmented by rigorous assessment tools for new hires.

The Mobily Elite fast track career development programme, which aims to attract and develop young Saudi talent, has begun to bear fruit, with 50 outstanding male candidates holding master and bachelor degrees having joined and contributing effectively to achieving Mobily's vision. The programme began in December 2012 and ended in December 2014. It marked 88 successful rotations, 11,360 hours of training, 132 mentoring sessions, and a significant contribution to Mobily's events and projects.

On the corporate process excellence front, HR re-engineered the top six critical processes leading to potential revenue enhancement, achieving savings of SR 35.5 million. The top 15 critical processes were also redesigned, to reducing turn-around time by an average of 68 percent.

Of 253 processes developed, 211 were customer-facing, contributing to an enhanced customer satisfaction score. The actual process compliance level reached 94 percent of all customer-facing KPIs.

Mobily's corporate processes and KPIs dashboard were ranked among the top five in the Middle East at the fourth Annual Conference on Customer Experience Management in Telecoms.

Through its quest to provide staff with a higher service quality, HR introduced the HR Helpdesk function, the first of its kind in the Middle East. It was created to automate the process of registering, tracking, and resolving employees' enquiries related to various service offerings in HR throughout the employee lifecycle. In 2014, the HR Helpdesk received 3,351 cases, of which 2,051 were solved on the same day, helping 1,571 employees.

Numerous employee engagement programs and events were conducted to connect staff in 2014. About 5,000 children joined the Daddy@Work event. For the first time, Mobily and outsource staff totalling nearly 7,000 employees in three regions participated in the 'We Care' event.

An innovation culture was embraced based on three pillars: Engagement, Collaboration, and Knowledge Sharing. Under this program, HR conducted 40 knowledge sharing sessions.

Mobily received the GCC Best Employer Brand Award in the third quarter of 2014. The award was made on the strength of exemplary learning and development initiatives; communicating distinctiveness in employee hiring, training and retention practices; and continuous innovation.

Mobily was also awarded the MENA HR Certificate of Excellence at the annual MENA HR Excellence Awards, in recognition of the company's special role in applying best practices in recruitment, improving the work environment, and supporting initiatives that increase employee performance levels, whether through training or incentivisation.

CORPORATE SOCIAL RESPONSIBILITY

Community support takes many forms

As a leading Saudi business organisation, Mobily strives to create a more caring world – at home, at work, for the environment, and as a community.

The company is acutely conscious of its responsibilities in key areas such as the wellbeing of its own employees, extending financial and practical assistance to the wider community, and adopting best practice in environmental matters.

Mobily's commitments to this goal cover many areas – from education to healthcare, cultural patronage to energy saving measures. The motivation is not simply to conduct business in a way that is good for society and mankind – it's also about making the business profitable so that it can continue to contribute to the wider society within which it operates.

This extends to total economic value created and distributed – from revenues and operating costs to wages and salaries, donations and other community investments, payments to providers of capital, and taxes or levies paid to local or national government.

Among the many activities undertaken in 2014 were:

- Participating in the fifth mass marriage ceremony arranged by the Harakia Association, when HRH Prince Abdulrahman bin Musa'ad honourred Mobily for its long-standing contribution. The company donated 100 couples with router device with free internet subscription for a year.

- Hosting a visit by the Minister of Labour, HE Adel Faqih, who recognised Mobily's role in the development of employment for women. Mobily strives to create a distinctive and convenient working environment for women and has already recruited more than 700, of whom about 320 work in customer service.

- The Minister sponsored the graduation of the first batch of 400 girls to complete Mobily's program to train them in the maintenance of mobiles, undertaken with the National Institute of Specialist Training for Women.

- Mobily Club for Apps Developers – the first of its kind in the Middle East – gives developers the tools and training to successfully deliver their projects. Advanced workshops in 2014 included 'Android Day', concentrating on face and voice recognition applications. A free 10-day beginners course dealt with with Mobily's iOS, aiming to teach how to build applications for the iPhone and iPad platform using Objective C and Cocoa.

- HRH Prince Turki bin Abdullah bin Abdulaziz, Deputy Governor of Riyadh Region, honoured Mobily for supporting the Saudi Association For Hearing Impairment.

• HRH Prince Ahmad bin Abdulaziz honoured Mobily for supporting the Alzheimer's Disease Association. Prince Saud Bin Khalid Bin Abdullah, Chairman of the Saudi Alzheimer Disease Association, signed a memorandum of understanding with Mobily to spread community awareness of Alzheimer's through SMSs.

• The Crown Prince, HRH Salman bin Abdul Aziz. honoured Mobily for sponsoring the Janaderiyah culture festival.

• Mobily and singer Mohamed Abdou launched the song *Soqoor Al Ibtikar* (Falcons of Innovation) which highlights the Kingdom's achievements in different fields. The song was launched as part of Mobily's efforts to boost the culture of innovation as part of its identity.

• Mobily qualified 50 Saudi students from Prince Sultan University in the SAP advance programme.

• HRH Prince Khalid Bin Bander honoured Mobily for its continuous support of the Ensan charity for orphans.

• The Crown Prince, HRH Salman bin Abdul Aziz. honoured Mobily for sponsoring *Yateek Khairha,* the national initiative for traffic safety organised by the Disabled Children's Association.

• The Governor of Eastern region honoured Mobily for its sponsorship of Waee for Health, the charity for awareness and social rehabilitation in Riyadh.

• Mobily supported the *Naqa* non-smoking initiative, donating SR 1 million in the presence of HRH Turki bin Abdullah bin Abdul Aziz, Governor of Riyadh.

AWARDS

Financial deal ranked 'best of the year'

Mobily's achievements have long been recognized and endorsed by respected independent adjudicators from industry bodies and specialist media, consistently featuring at regional and international awards ceremonies.

This continued during 2014 when honours bestowed were:

• *Best Financing Deal, Euromoney Group*
• *Best Trade Finance, Islamic Finance News*
• *MENA HR Certificate of Excellence, MENA HR Excellence Awards*
• *Most Effective Crisis Management, Business Continuity Institute Middle East*
• *Best Employer for GCC Countries, Employer Branding Institute*

Corporate Information

The Company is incorporated in the Kingdom of Saudi Arabia under Registration number 1010203896

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