



INNOVATION

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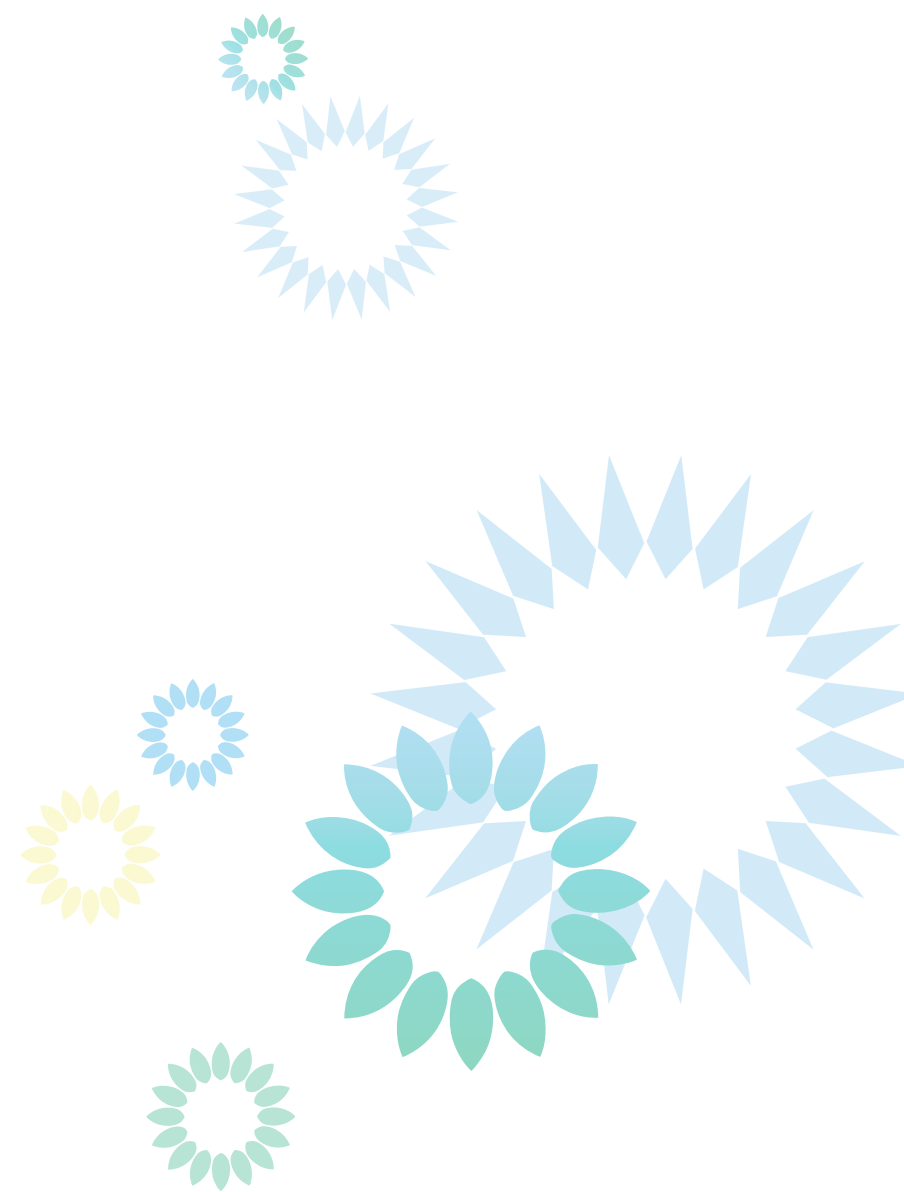
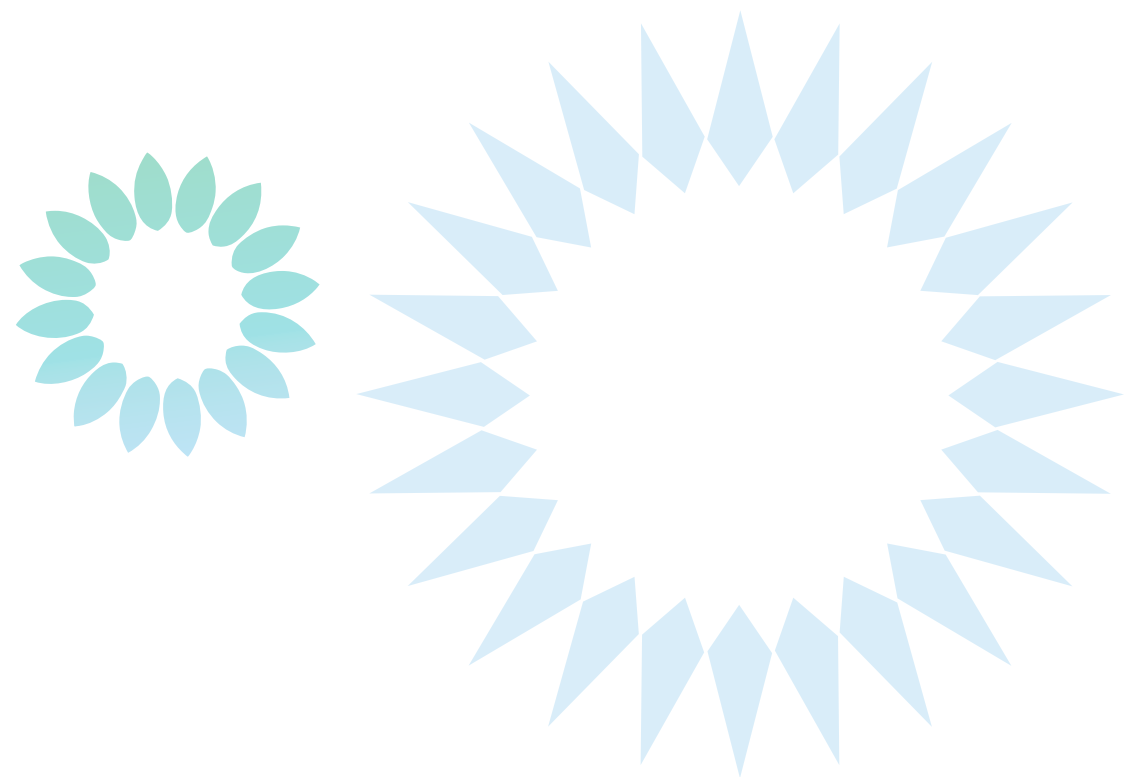
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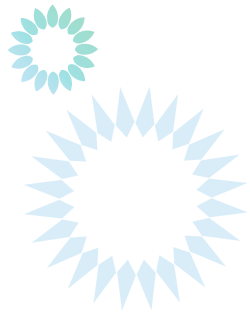
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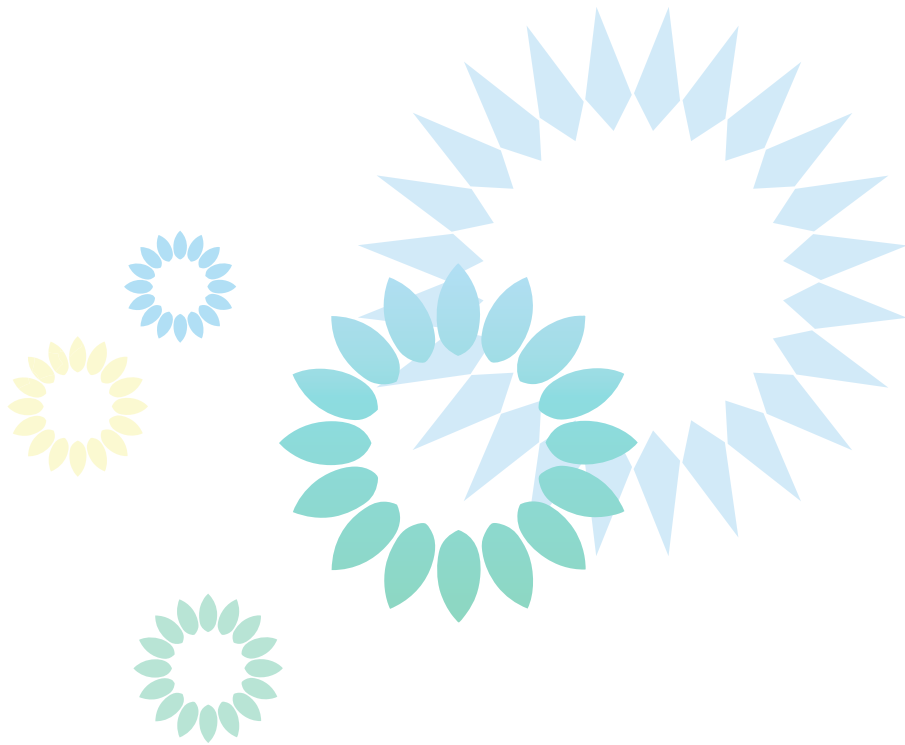
ANNUAL REPORT 2016

ANNUAL REPORT 2016





INNOVATION





**H.H. SHEIKH SABAH AL-AHMAD
AL-JABER AL-SABAH**
AMIR OF THE STATE OF KUWAIT



**H.H. SHEIKH NAWAF AL-AHMAD
AL-JABER AL-SABAH**
CROWN PRINCE



**H.H. SHEIKH JABER AL-MUBARAK
AL-HAMAD AL-SABAH**
PRIME MINISTER



TABLE OF CONTENTS

06

BOARD OF DIRECTORS

08

CHAIRMAN'S MESSAGE

11

2016 AT A GLANCE

12

KEY MILESTONES

14

CEO STATEMENT

20

GROUP KEY
PERFORMANCE
INDICATORS

21

OPERATIONS OVERVIEW

22

A YEAR IN REVIEW

28

THE WORLD OF ZAIN

30

OPERATIONS SNAPSHOT

46

MARKET OVERVIEW

52

TOGETHER WE ARE ZAIN

58

TECHNOLOGY

64

COMMERCIAL

70

CORPORATE SUSTAINABILITY

76

ANNUAL CORPORATE
GOVERNANCE REPORT

98

CONSOLIDATED ANNUAL
FINANCIAL STATEMENTS
AND INDEPENDENT
AUDITOR'S REPORT

140

CONTACT LIST

BOARD OF DIRECTORS



**MR. ASAAD AHMED
AL BANWAN**
CHAIRMAN



**MR. BADER NASSER
AL KHARAFI**
VICE CHAIRMAN



**MS. SHAIKHA KHALED
AL BAHAR**
BOARD MEMBER



**MR. WALEED ABDULLAH
AL ROUDAN**
BOARD MEMBER



**MR. ABDULMOHSEN
IBRAHIM AL FARES**
BOARD MEMBER



**MR. ABDULAZIZ
YAQOUB AL NAFISI**
BOARD MEMBER



**MR. JAMAL AHMED
AL KANDARY**
BOARD MEMBER



**MR. JAMAL SHAKER
AL KAZEMI**
BOARD MEMBER

CHAIRMAN'S MESSAGE

On behalf of my fellow Board Members, it gives me great pleasure to welcome our honorable shareholders to the annual general assembly and present the Zain Group 2016 Annual Report, which details the company's financial results and reviews the important accomplishments that were achieved during the course of the year ending 31 December, 2016.

Economic and political challenges continue to plague markets across the region, with fluctuations in oil prices, political unrest, inflation, and the introduction of restrictive regulatory legislation directly impacting the performance of the telecom sector. This has in turn increased the obstacles to business growth across the regional telecom sector. Having said this, the global telecommunications industry recorded positive growth, with mobile subscriptions growing by nearly 4% and global revenues generated by operators increased by 2% in 2016.

Numerous economic reports and forecasts have indicated that there may be an improvement in economic growth in the region as governments continue to look to diversify revenues away from a dependency on oil. Zain Group operations, however, are set to continue suffering from political tensions and security risks in certain parts of the region, which have severely affected the socio-economic and demographics of some markets and witnessed a mass exodus of people in some of our markets of operation. Currency fluctuations and challenging monetary policies that have been imposed in some of our markets have also been a challenge to navigate.

The rippling effect of digital services on all forms of life drives the telecom sector, and an operator's ability to keep pace with digital innovation and monetize these activities has become a key differentiator and success factor. The requirement for operators to carve out new revenue streams and drive digital innovation in their operations in order to remain competitive is key, while there is an urgent need for regulatory reforms in order to support the further development of the sector and its adoption of new technologies.

Given the requirement to innovate, Zain Group has entered into strategic partnerships with international and regional institutions to fuel transformational initiatives that are relevant to the needs of its customers. These strategic alliances are assisting Zain Group in its ambition to become a leading digital lifestyle provider in the region.

Based on these challenges, opportunities and new alliances, Zain Group reviewed its operating procedures, and adapted them accordingly in order to maintain its leading market position in most of our markets growing the customer base by 3% in 2016 to reach 47 million.

INVESTING FOR GROWTH OPPORTUNITIES

In 2016, the Group stepped up its efforts to identify promising emerging opportunities. With an aim to manage severe competitive pressures and the sharp decline in traditional revenue, Zain continues to display great interest in the development of the business enterprise sector, where enormous growth opportunities exist.

In parallel, the Group has made progress in focusing on the operational efficiency of its operations, strengthening its plans to rationalize costs and capital expenditure (CAPEX). CAPEX totaled USD 635 million (excluding Zain Saudi Arabia) in 2016, representing 18% of total revenue.

While the Group continues to increase the coverage of its 3G and 4G networks, heavy and growing consumption of data services and the growth in data savvy customers, means service providers such as Zain need to operate their networks at a high level of operational efficiency. Through 2016, Zain Group continued to launch 4G networks, the most recent in Sudan in Q1 2016, and bringing the number of 4G networks in the Group to six, representing 20% of the total number of 4G networks in the region.

Data revenues (excluding SMS and value added services) witnessed a 6% growth rate in 2016, ending the period representing 23% of total revenues.

While the Group continues to look to diversify its operations and remain innovative, a focus on enhancing the customer experience and driving of operational efficiencies remains central to the company's overall strategy. As a result, Zain stepped up its efficiency drive in 2016, and we expect further significant growth in the use of data on our networks, while we continue to move more customers to 4G networks.

FINANCIAL INDICATORS

Zain Group has embarked on comprehensive operational reforms aimed at helping it launch new and compelling offerings appropriate to differing customer segments. These operational and commercial initiatives pushed the Group's developments to new levels of growth, though adverse conditions around the volatility of currency exchange rates, and other operational pressures, in Iraq for example, impacted the Group's operational performance. Performance was further affected by an erosion and a sharp decline in traditional revenue due to the presence of OTT messaging and VoIP players capturing a large part of the market.

For the full-year 2016, Zain Group generated consolidated revenues of KD 1.1 billion (USD 3.6 billion), down 4% Y-o-Y, while consolidated EBITDA for the period grew by 3% Y-o-Y and reached KD 512 million (USD 1.7 billion), reflecting a healthy EBITDA margin of 47%. Consolidated net income reached KD 157 million (USD 519 million), up 2% and reflecting Earnings Per Share of 40 Fils (USD 0.13).

For the full-year 2016, foreign currency translation impact, predominantly due to the 60% currency depreciation in

Sudan from 6.4 to 15.9 (SDG / USD), cost the company USD 92 million in revenue, USD 38 million in EBITDA and USD 44 million in net income.

The Board of Directors of Zain Group recommended a cash dividend of 35 Fils per share for the financial year ended December 31, 2016 subject to the Annual General Assembly and regulatory approvals.

KEY OPERATION'S PERFORMANCE

Zain Kuwait remains the most profitable company within the Group, despite the intense competition, and high mobile penetration rates (over 200%). Our success in Kuwait is thanks to our continuous investment in enhancing the efficiency of the network, helping the company maintain market leadership both in terms of customer numbers as well as the returns achieved.

The current social circumstances in Iraq continue to pose a challenge to our operations, including the imposition of a sales tax of 20% on mobile services coupled with an intense price war. Despite these challenges in the country, Zain continues to invest and expand its third generation network across all areas in Iraq, offering life-enhancing connectivity to the rest of the world with the operation serving 12.7 million customers.

In December 2016, Zain Iraq entered into a negotiated settlement with the country's Finance Ministry for USD 93 million related to an imposition of a capital gains tax on its acquisition of Iraqna in 2007. This resulted in the lifting of restrictions on the trading of Zain Iraq's shares and access to the company's bank deposits, supporting the future viability and growth of our mobile operation there.

The Group's operations in Sudan experienced a strong operational performance in 2016 thanks to the increase in voice services and data revenues, and we are confident that the company is moving to new levels of growth following the successful launch of 4G in the Q1 2016. It is unfortunate that the foreign currency translation impacted us there, given the impressive growth in local SDG currency, nevertheless we draw confidence from the continually increasing customer base that reached 12.5 million.

While in Saudi Arabia, the company's customer base was affected by the application of the new biometric registration requirements imposed by the country's Communications and Information Technology Commission. This development impacted the Group's total customer base also having a drastic impact on the operator's customer numbers that totaled 10.8 million at the end of 2016.

The High Order decision in October 2016 to extend the license issued to Zain Saudi Arabia for a further 15 years, coupled with a unified Telecommunication license has generated considerable momentum towards Zain Saudi Arabia's future prosperity. The developments are set to have a positive impact on the company's financial and operational performance in the years ahead, which will reduce the amortization license sums by as much as SAR

433 million (USD 115 million) annually, in effect reducing Zain Saudi Arabia's net losses by the same amount. We are very thankful to the Kingdom's authorities for such a gesture.

Zain Jordan recorded a strong performance in 2016, where the company managed to preserve its market-leading position with a total customer base of 4.3 million customers, representing an annual growth rate of 5%, while in Bahrain, it is very pleasing to see a 22% increase in the customer base to reach 971,000, both operations increasing customer base boding well for their future prosperity.

Regarding arbitration related to outstanding taxation and litigation disputes from the sale of our African assets back in 2010 to Bharti Airtel, I am pleased to report that we reached a final settlement to pay the amount of USD 129 million. This payment had no financial impact on Zain for the year as we previously at the time of the sale set aside provisions to cover potential payments related to the transaction.

CORPORATE GOVERNANCE

Zain Group implemented a number of activities in line with its corporate governance overview, which also take into account the regulations issued by Kuwait's Capital Markets Authority. The Group is committed to the rules of transparency and the foundations of responsible management, improving the supervisory role of the Board of Directors on executive management, and on important transactions in order to ensure the protection of shareholders' rights.

The commitment to the company's Code of Conduct is the responsibility of every employee in Zain Group, and through these values and principles, the company looks to make a positive impact on the telecommunications sector, and in the communities in which it operates. Zain will continue to operate in a transparent manner and champion the principles of good corporate governance.

OUR PEOPLE

Zain Group recognizes that its greatest wealth resides in its people, and so the company looks to provide them with the training and technical skills required assisting them to achieve career success. The Human Resources division of Zain Group and operating countries introduced significant strategic initiatives during the course of 2016 building on the Employee Value Propositions that saw several exciting projects implemented. The year also saw the company's Human Resource Policy being updated, to provide a positive work environment to help employees motivating them to do their best and reach their full potential and this policy reflected many new criteria related to recruitment, training and performance by management.

CORPORATE SUSTAINABILITY

2016 was a fascinating year for corporate sustainability initiatives for the Group and across all our operations, and it was unfortunate that conflicts in the region continue to affect so many lives and businesses. We continued our support of the World Economic Forum, the MIT Enterprise Forum Start-Up Competition expanding such to include the MIT Innovate for Refugees competition and also team up with Facebook and the UNHCR to provide complimentary Wi-Fi connectivity to refugees and various communities in Jordan to name a few. Across our operations, we launched several initiatives that focused on capacity-building skills in order to address societal deficits and supporting the socio-economic development of the region we operate in.

We also published our fifth annual sustainability report, entitled "Building the future" detailing Zain's triple bottom line approach and its humanitarian, social and environmental pursuits and achievements reflecting the company's ongoing commitment to align its policies and activities with the Post-2015 Sustainable Development Goals.

Additionally, we published a thought-leadership report entitled "Bringing the Future Closer with Innovation: Pursuing Innovation as a Means to Overcome Challenges in the MENA Region", illustrating the indispensable role of innovation in achieving sustainable development and transitioning towards a knowledge-based economy, from a regional perspective. The report was revealed and discussed at the annual World Economic Forum held in Davos, Switzerland, January, 2016.

APPRECIATION

I would like to take this opportunity to express my sincere appreciation for the confidence given to us by our shareholders, and our valued customers. I would also like to extend my deep gratitude to my brothers and sisters in the Board of Directors and the executive management for their tireless efforts that have helped the Group to continue its operations in such a positive manner.

On behalf of all my fellow members of the Board of Directors and the executive management, as well as all employees of the Group, I would like to offer our deepest gratitude and appreciation to His Highness the Amir of Kuwait, Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah; His Highness the Crown Prince Sheikh Nawaf Al-Ahmad Al-Jaber Al-Sabah; His Highness the Prime Minister Sheikh Jaber Al-Mubarak Al-Sabah; and to the esteemed members of our Government for their continued support of Kuwait's national organizations and institutions.



Asaad Ahmed Al-Banwan
Chairman, Board of Directors

2016 AT A GLANCE

47 MILLION
ACTIVE CUSTOMERS

\$3.6 BILLION
IN REVENUES

\$1.7 BILLION
IN EBITDA

\$519 MILLION
IN NET INCOME

\$635 MILLION
IN CAPEX

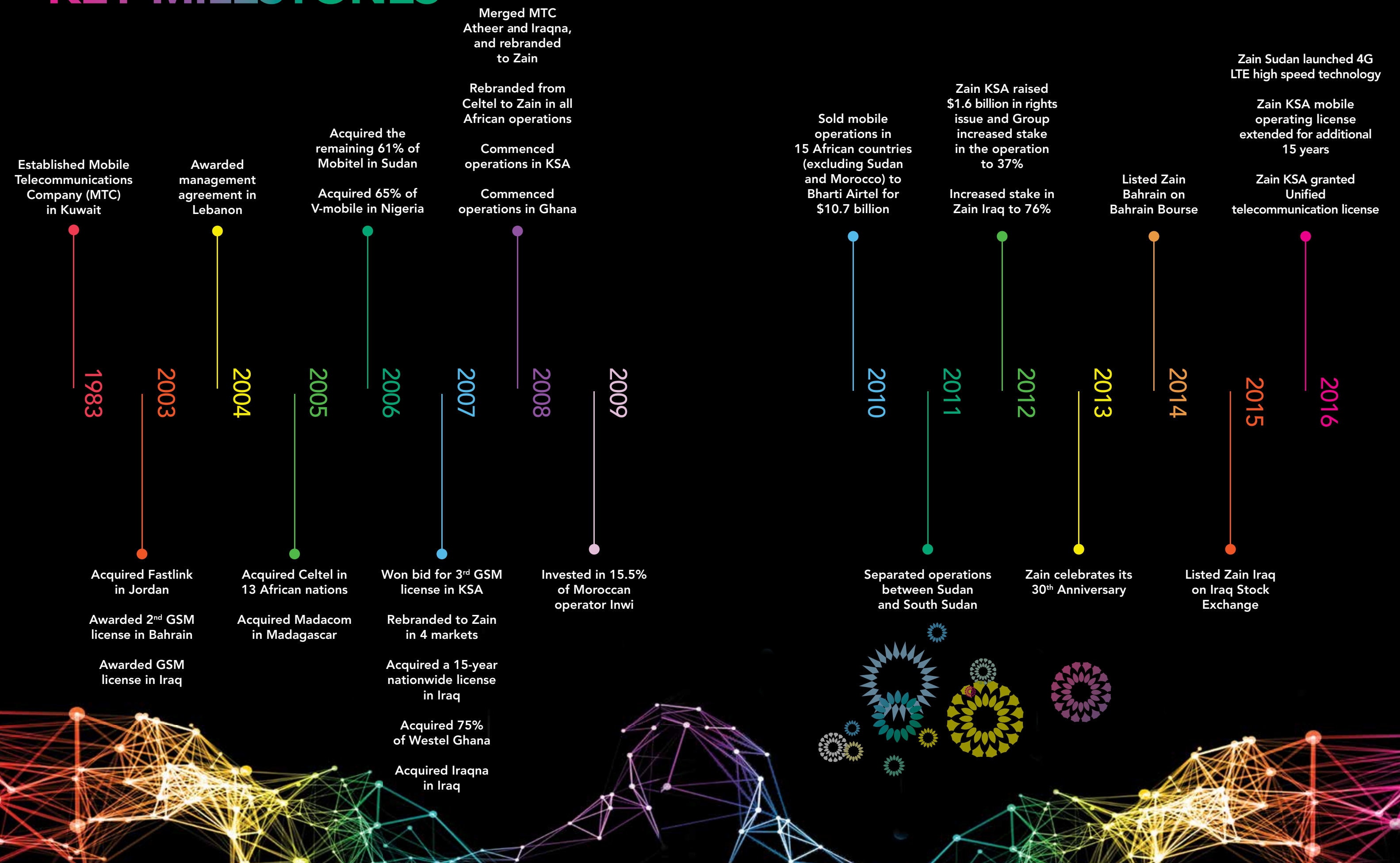
6% Y-o-Y INCREASE
IN DATA REVENUES

BEST TELECOM BRAND
IN THE MIDDLE EAST

MARKET LEADER
IN KUWAIT, IRAQ, SUDAN, JORDAN
AND LEBANON



KEY MILESTONES



CEO STATEMENT



SCOTT GEGENHEIMER REVIEWS 2016 RESULTS, OPERATIONAL CHALLENGES AND THE FUTURE STRATEGIC DIRECTION OF ZAIN

SUMMARY OF KEY POINTS

- 2016 saw the implementation of many concrete steps to support our digital lifestyle aspirations
- Despite facing strong headwinds across all markets, Zain operations found ways to overcome these challenges, out-performing competitors
- Large-scale investment in networks coupled with data monetization initiatives yielding growth in data revenues
- Intense competition and social unrest in several key markets impacted overall financial performance
- Efficiency and optimization drive producing tangible positive results reflected in improving EBITDA margin of 3%



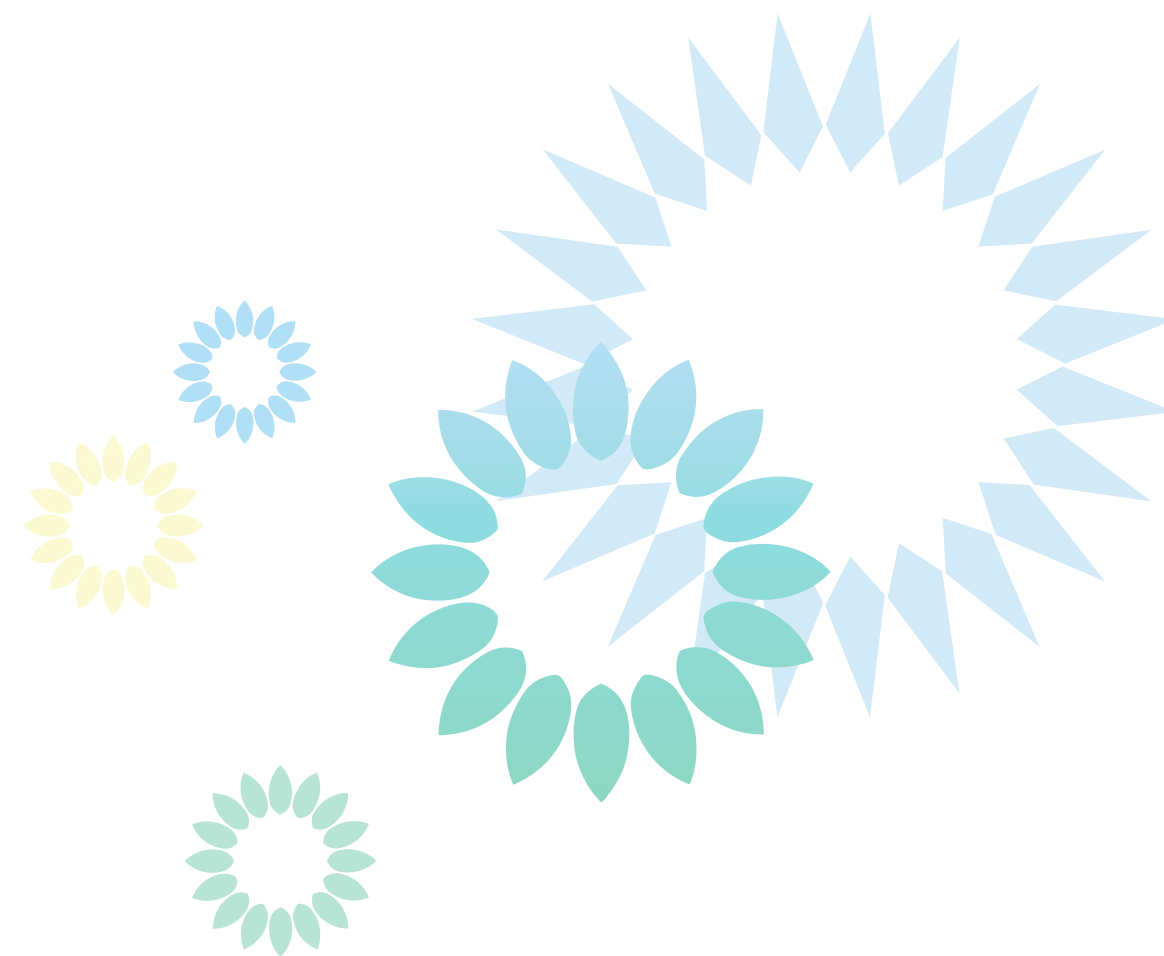
ZAIN 2016 KEY FINANCIAL RESULTS AND OPERATIONAL HIGHLIGHTS

Zain group served 47 million customers at the end of 2016, reflecting a 3% increase year-on-year (Y-o-Y).

For the full-year 2016, Zain Group generated consolidated revenues of KD 1.1 billion (USD 3.6 billion), down 4% Y-o-Y, while consolidated EBITDA for the period grew by 3% Y-o-Y and reached KD 512 million (USD 1.7 billion), reflecting a healthy EBITDA margin of 47%. Consolidated net income reached KD 157 million (USD 519 million), up 2% and reflecting Earnings Per Share of 40 Fils (USD 0.13).

For the full-year 2016, foreign currency translation impact, predominantly due to the 60% currency depreciation in Sudan from 6.4 To 15.9 (SDG / USD), cost the company USD 92 million in revenue, USD 38 million in EBITDA and USD 44 million in net income.

Heavy investment in 3G & 4G network expansion upgrades across operations saw CAPEX spend for the year amount to USD 635 million (excluding Saudi Arabia), reflecting 18% of Group revenues. Such investments continue to pay off as Group data revenues (excluding SMS and VAS) grew 6% during 2016, representing 23% of the Group's consolidated revenues.





HOW WOULD YOU DESCRIBE THE OVERALL YEAR THAT ZAIN OPERATIONS HAD IN 2016?

In a word, I would describe it as challenging as we faced strong headwinds coming from external factors. Our operations found ways to overcome these challenges and continued to drive the business forward, out-performing competitors.

I believe we successfully managed the operations in 2016 as we have consistently been able to achieve strong progress in pursuit of our ambition to become a digital lifestyle provider. This means focusing on the development of compelling services and providing content, delivering an omni-channel customer experience, and the investment in the technologies and capabilities to power the high-speed delivery of rich content, continuing to exploit our data monetization initiatives.

We have also been keen to drive efficiencies across the Group and to benefit from synergies whenever possible. There is no better example than our rollout of high-speed 4G LTE services across six of our markets (Kuwait, Bahrain, Jordan, Lebanon, Saudi Arabia and Sudan) where we were able to drive cost optimization in the deployment of these technologies and to take advantage of the technical experiences between operations, resulting in faster and more efficient rollouts.

WHAT DO YOU REGARD AS THE MAJOR HIGHLIGHTS FOR THE YEAR?

There have been many positive developments during the course of 2016 that have maintained Zain Group's momentum, and made us look to 2017 with confidence:

In Saudi Arabia, through a Royal Order on October 1, 2016, we received an extension of our telecommunications license by 15 Hijri years, effectively extending the license term from 25 Hijri years to 40 Hijri years (from 29th March 2008 to 18th January 2047). The impact of this extension for the company was the immediate reduction of its license fee amortization, which amounts to approximately SAR 433 million (USD 115 million) per annum, in effect reducing the Company's net losses by the same amount.

The Royal Order also requires the company to pay 5% of its net income over the 15 year extension period as soon as the original 25 Hijri year-term elapses and requires that Zain Saudi Arabia coordinate with the Kingdom's Ministry of Finance to discuss alternatives regarding the amounts due to the Government.

The High Order additionally granted Zain Saudi Arabia the opportunity to migrate to a unified telecommunications license that supports both service and technology neutrality. This development allows us to provide all telecommunications services using appropriate technologies within our approved frequency bands, including fixed services which we plan to fully exploit for beneficial returns.

We are very thankful to the Kingdom's authorities for these very favorable gestures that will support the future viability and sustainable growth of the operation there, as well as giving us the confidence to further invest in network expansion and upgrades to support the ever-increasing demand for broadband data in the Kingdom.

In Iraq, we announced the launch of the country's first fully convergent billing system with Huawei, which will see customers enjoy a wider range of services at attractive price points. Our operations in Iraq and Jordan launched the "ZainCash" service to boost e-commerce; both countries first online payment solution enhancing the livelihoods of their unbanked community.

With the launch of 4G services in Sudan earlier in the year, we expect exponential growth in data services in this market, where we will continue to invest in expansion of Sudan's network.

Regarding to digital developments, the Zain Digital Frontier and Innovation (ZDFI) team was active with more than 400 new innovative ideas and opportunities being examined in 2016, and the most appealing of them either implemented by Zain across its operations or are in the final stages of negotiation.

Successful deals during the year include strategic investments in smart city firm, neXgen, to take advantage of the enormous potential of the region's smart city transformation. We also invested in the mobile solutions and consultancy entity, FOO, which we believe will help further drive our innovation efforts in the app development arena and deliver quality digital services to our customers.

We extended our foray in venture capital firms by investing in the US based Colle Capital Partners, a global, opportunistic, early stage technology venture fund based in New York, with a presence in San Francisco. Colle Capital Partners has a diversified technology focus with an emphasis on data in the following sectors: Energy, Media, Telecommunications, Health IT, Security, and Software Development. This extends Zain's corporate venturing to the US and

complements established relationships through our investments in MEVP, EarlyBird and Wamda. The strategic investments in these early-stage and growth-stage digital investment companies offer us new opportunities in Central and Eastern Europe, Turkey, the Middle East, Africa, and North America, which we intend to capitalize on by rolling out appealing and unique innovative services that arise within these funds.

During the year, we entered into partnership with the world's leading hotel site Booking.com, rewarding customers in several of our markets when booking accommodation through a dedicated URL. This follows previous Group-wide partnership deals with Uber and global games provider Zeptolab – Cut the Rope game.

Zain will continue to expand its reach with prospective acquisitions of digital businesses in the Over the Top (OTT) and content space. Eventually, Zain's goal is to build scale and become a leading enabler of digital businesses in the Middle East.

WHAT WOULD YOU DESCRIBE AS THE PILLARS OF YOUR STRATEGY?

Zain Group has been clear with its identification of six transformational initiatives aimed at making the company future-ready and capturing the enormous potential of the regional and global digital market. These plans extend to:

- 1) Customer Experience
- 2) Operational Effectiveness
- 3) Value Management
- 4) Enterprise (B2B)
- 5) Digital Frontier and Innovation
- 6) Talent Development

These initiatives are based on supporting Zain Group's effort to growing our existing business across all operations and to capture a significant market share of smart city and digital revolution developments. In particular, our operations are focused on sustaining value in its core business of voice, messaging and mobile broadband, as well as to exploiting fully new revenue streams in the lucrative, but regionally-fragmented B2B segment. In addition, Zain is seeking to build scale in the emerging regional digital landscape covering areas such as e-Commerce, digital content, mobile advertising and gaming, smart cities and mobile application development.

During 2016 we continued to place a great deal of emphasis on implementing data monetization initiatives

and enhancing our customer experience, to positive effect. Our efforts to place the customer at the heart of everything we do have successfully built brand and loyalty, which has led us to maintain market leadership by customer numbers and value share in most of our footprint.

DO YOU BELIEVE YOUR ENDEAVORS ARE BEING RECOGNIZED BY ALL YOUR STAKEHOLDERS?

Absolutely. Our customers continue to remain loyal, while our staff who we like to call Zainers, are motivated to give their best. Our other partners, I believe, find our business approach progressive and inclusive, so indeed I am under the impression our stakeholders enjoy engaging with us.

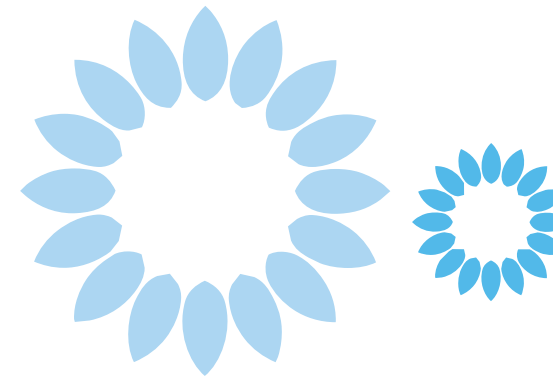
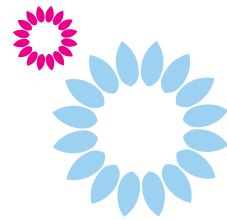
It was also gratifying to see our work and interactions being recognized within the wider market, as Zain Group was awarded a number of industry accolades. We won the highly coveted 'Best Overall Operator of the Year' award at the 2016 CommsMEA Awards ceremony, with Zain identified as the region's best performing mobile operator having devised a clear strategy that we are implementing over the next five years. The crux of the strategy is related to taking advantage of our assets and competencies extending to our people, networks, leading brand and geographic coverage.

At the same event, Zain Iraq was recognized as having run the 'Best Marketing Campaign for 2016' with its "#HassaEliya," (Now for Me) project being applauded for inspiring and empowering young Iraqi talent by encouraging them to explore their potential and skills, and equipping them with the necessary tools to help achieve their goals.

We also won the 'Best Brand for Telecom in the Middle East for 2016' award at the Telecom Review Summit Awards, with the prize recognizing the outstanding performance of Zain's brand across all its markets, which has come to represent the highest standard of customer service at all its touch points.

The brand was also identified as the 'Best Brand for Telecom in 2016' at the prestigious Telecoms World Middle East Awards, while our operation in Saudi Arabia was presented with the 'Best Customer Experience' service award, and Zain Jordan and Zain Iraq jointly received an award for 'Best Consumer Service' for their life-enhancing 'ZainCash' mobile money offering.

Zain Group, was also named the 'Best Employer Brand' at the annual LinkedIn Talent Awards, joining an elite group



of organizations identified as being among the best employer brands in the region that utilize LinkedIn Talent Solutions to find, hire and retain top talent.

Internationally, Zain Group was awarded unprecedented five prizes at the 2016 Global Telecoms Business (GTB) Innovation Awards held in London, the highlighted being the award for our ground-breaking deal with Uber. Our Group finance team won Naseba's 'Best Finance Team of the Year award for 2016', with the department's prime focus having remained satisfying customer needs through helping stakeholders within the organization achieve strategic goals, while managing risk and maintaining oversight regarding compliance requirements.

WHAT DO YOU CONSIDER TO BE THE KEY DIFFERENTIATOR/S FOR MOBILE NETWORK OPERATORS, TODAY?

Innovation and Customer Experience. The ability to deliver what the customer wants in order to stay relevant is critical. Non-voice and digital services are the drivers of the modern mobile communications industry and we expect this to remain the case going forward. Thus, we believe it is vital for us to continue to transform Zain into a digital services provider in order to align it with where we believe the value is migrating to in our industry. Those service providers that do not change and evolve will be overtaken, and will ultimately fail.

We established the ZDFI business unit to thrust Zain into the digital space by identifying new business areas, value-adding strategic partnerships, accretive acquisition opportunities and synergistic corporate venturing investments. Collectively, these activities look to create new revenue streams to maximize the Group's high-speed 4G-LTE broadband networks, customer assets, network intelligence and payment and billing frameworks. ZDFI focuses on the areas of innovation; digital services; corporate venturing; and smart cities.

On ZDFI's part, we have identified substantial incremental revenue opportunities from the investment in smart city deployments in the Gulf, as well as from M2M. For example, we partnered with Vodafone, in order to deliver M2M services to enterprise and government sectors across the region, with our operations in Kuwait and Saudi Arabia at the forefront of this initiative.

At Zain a key part of our brand is delivering a superior customer experience and in doing so drive loyalty and create

brand advocacy. We understand that engaged customers stay longer with us, and tend to use more and more of our services and this is key to protecting our existing customer base and will also help in attracting new customers. We are listening to the voice of customers and continuously enhancing our products and services to meet their needs and increase their satisfaction.

WHAT IS YOUR VIEW ON MARKET CONSOLIDATION IN THE REGION, OR THE POSSIBILITY OF ZAIN ACQUIRING AN OPERATOR OUTSIDE OF ITS CURRENT MARKETS OF OPERATION?

Zain continues to take a pragmatic approach to geographic expansion. We have reviewed expansion opportunities in the past, and will likely continue to as they present themselves, especially in opportunities of managing operations across the MENA region where our brand affiliation is strong.

I firmly believe that there should be consolidation in several MENA markets as the long term viability of some operations is questionable, especially where there are three or more operators in relatively smaller markets. At a minimum these markets should seriously consider network sharing to free up capital and minimize operational costs, and this consideration can also apply to larger markets.

Going forward Zain Group and its operating entities are looking to remain vigilant and agile to market opportunities. We are all well aware that the telecom industry is changing rapidly, and as one of the leading service providers in the region, we believe it is imperative for us to embrace these changes and be forward-looking in our approach to industry changes.

These are exciting times for all stakeholders in the ICT value chain, traditional as well as new entrant, and opportunities abound for the creation of significant value for all participants should they be agile enough to identify and grasp them.

CORPORATE SUSTAINABILITY HAS ALWAYS BEEN STRONG SUIT FOR ZAIN GROUP. WHAT WAS YOUR PERFORMANCE IN THIS AREA LIKE DURING THE COURSE OF THE YEAR?

Sustainability, transparency and thought-leadership are at the very core of Zain's business and this is reflected in every aspect of the company's day-to-day operational activities. Every year Zain publishes its annual Sustainability Report. The latest report, published in May 2016, highlights our maintenance of our regional leadership position in pursuing our sustainability agenda and supporting our communities through outreach activities such as capacity-building, education, socio-economic development, and environmental stewardship.

We continue to be a key partner of the MIT Enterprise forum Pan Arab Start Up Competition that sees over 12,000 aspiring entrepreneurs compete for lucrative prizes, also having extended this relationship to include the global MIT 'Innovate for Refugees' competition that witnessed worldwide participation.

In 2016, we unveiled an awareness campaign across all of our social media channels to support key aspects of the United Nations' Outlook for 2030, and the 17 Global Goals for Sustainable Development that were adopted by 193 world leaders at the UN in September 2015. The launch of the campaign coincided with the UN Week that took place in New York in September 2016.

Zain Group collaborated with a wide range of companies based in the Middle East and Africa to develop social networks and continues to rally to tackle issues of the eradication of poverty; propel forward the fight against injustice and inequality; and deal directly with the issue of climate change.

The upliftment of socio-economic standards in the markets in which Zain Group operates has always been a key strategic priority for the company, with Zain utilizing numerous corporate sustainability initiatives to positively impact communities.

GIVEN ALL YOU HAVE STATED, WHAT ARE SOME OF YOUR EXPECTATIONS GOING INTO THE NEW YEAR AND BEYOND?

We expect 2017 to witness intense competition in our markets, as has been the case in previous years. To counteract such and to propel our digital lifestyle aspirations, we will continue to focus on these key areas: Investment in innovation in the digital space; partnerships with leading application and OTT/digital providers to deliver the richest content; and monetizing our data networks further and delivering our customers an enriching omni-channel experience.

Building on our recent successes to date, another key focus will be to continue our drive in operational efficiency through a broad range of OPEX and CAPEX cost optimization initiatives, supported by enhanced procurement processes throughout the organization.

We have already identified substantial incremental revenue opportunities within the B2B space especially from the investment in smart city deployments in the Gulf, as well as from M2M services to enterprise and government sectors across the region including personal and corporate cloud services, and we expect to see this grow further in the years ahead.

Additionally, we see more opportunities than challenges with respect to the adoption of digitization and smart city solutions in the Middle East. As a fast developing and evolving area, new learnings will be required regarding the most efficient and effective business models, and the best ways to monetize applications and services, but overall, we believe that digitization will continue to catalyze and fuel numerous growth opportunities.

The power of mobile internet is a driving factor to unlocking the potential of how people live their lives and is transforming how they conduct their business. This is driven by the confluence of smart technologies and services, the Internet of Things, the power of data, and smart city developments that will enhance the lives of millions of people across the region.

All said, we look to 2017 with optimism and confidence.

GROUP KEY PERFORMANCE INDICATORS

CUSTOMERS (000)

CAGR: +2.4%

2016	2015	2014	2013	2012
47,004	45,634	44,288	46,102	42,714

REVENUES (USD m)

CAGR: (5.8%)

2016	2015	2014	2013	2012
3,602	3,783	4,268	4,376	4,584

EBITDA (USD m)

CAGR: (4.6%)

2016	2015	2014	2013	2012
1,694	1,657	1,783	1,898	2,041

NET INCOME (USD m)

CAGR: (12.9%)

2016	2015	2014	2013	2012
519	513	685	764	902

OPERATIONS OVERVIEW

CUSTOMERS (000)

IRAQ	SUDAN	KSA	JORDAN	KUWAIT	LEBANON	BAHRAIN
12,672	12,535	10,708	4,257	2,952	2,299	971

REVENUES (USD m)

IRAQ	KUWAIT	SUDAN	JORDAN	BAHRAIN
1,083	1,067	709	483	175

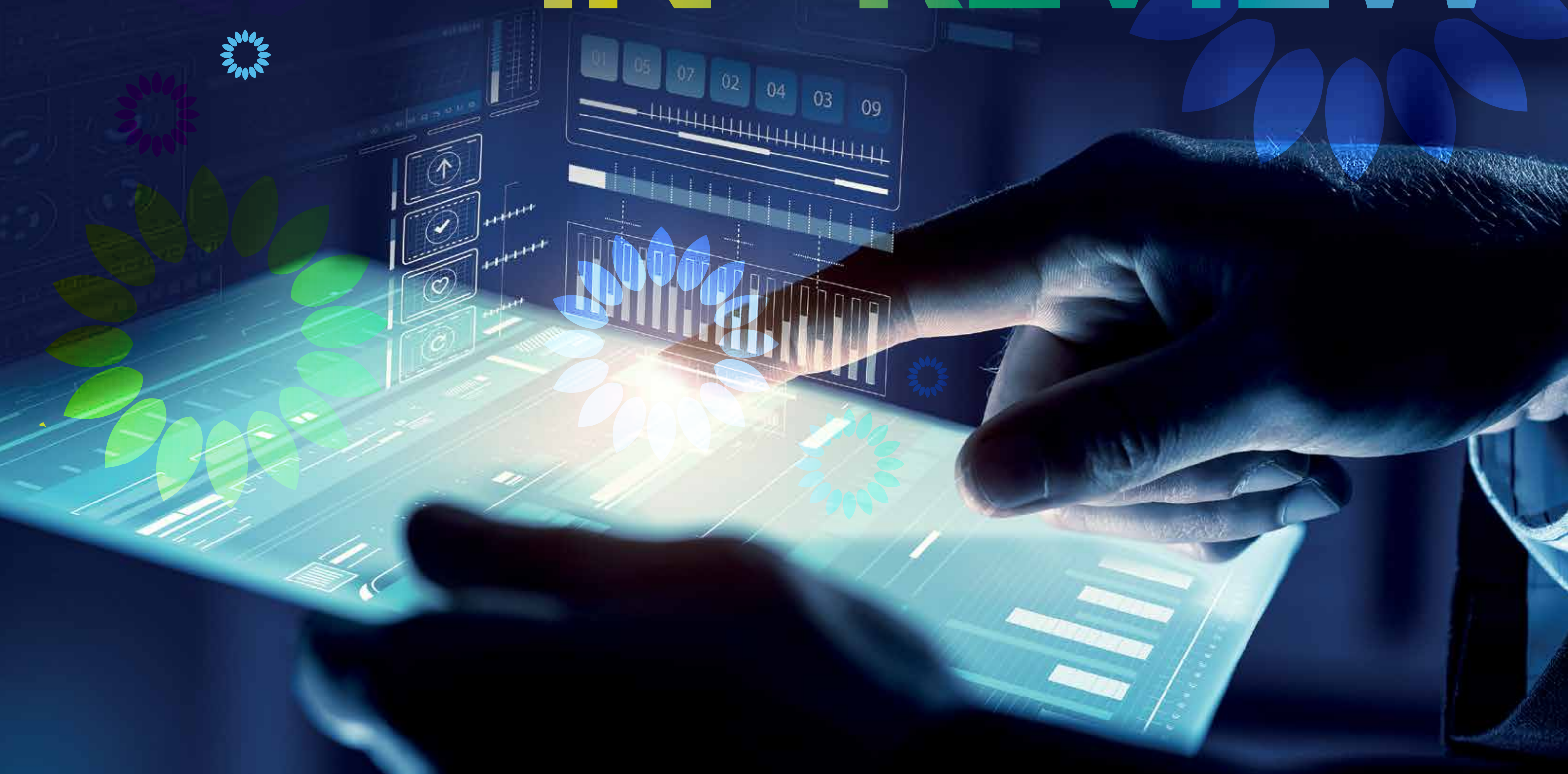
EBITDA (USD m)

KUWAIT	IRAQ	SUDAN	JORDAN	BAHRAIN
531	394	290	240	66

NET INCOME (USD m)

KUWAIT	JORDAN	SUDAN	BAHRAIN	IRAQ
298	105	91	11	(5)

A YEAR IN REVIEW



DECEMBER



- Zain identified as the 'Best Brand' for Telecom in the Middle East for 2016 at the Telecom Review Summit Excellence Awards held in Dubai.
- Strategic investment by Zain in Colle Capital Partners (www.collecapital.com), a global, opportunistic, early stage technology venture fund.
- Zain announces partnership with Ericsson for 5G research and development.
- Sixth annual Zain Technology Conference (ZTC) held in Amman, Jordan.
- Zain Innovation Campus (ZINC) in Jordan ends the year having 70 strategic partners, holding more than 305 events and 25,000 participants and visitors since inception.
- Zain Sudan opens new state-of-the-art nine floor call center to meet customers' needs.

NOVEMBER



- Zain Group won CommsMEA's Best Overall Operator award for 2016.
- Naseba's 2016 Finance Team of the Year accolade awarded to Zain Group.
- Zain and Huawei launched first fully Convergent Billing System in Iraq.



OCTOBER



- Zain showcased its regional experience in the areas of sustainable development at a roundtable discussion convened by the United Nations and the Kuwait General Secretariat of the Supreme Council for Planning and Development supporting the UN's 2030 Sustainable Development Goals.
- For the first time in Kuwait, Zain Group holds Digital Innovation Forum bringing teams from across operations.
- Best Employer Brand accolade awarded to Zain at annual LinkedIn Talent Awards.
- Zain Group's legal team recognized in prestigious Legal 500 General Counsel Power list.
- Zain Saudi Arabia receives a High Order 15-year extension to its operating license which will expire in March 2048. Also a 'Unified' telecommunication license was granted to all mobile operators.
- Zain sponsored MIT Enterprise Forum Pan Arab 'Innovate for Refugees' competition concludes with final held in Jordan.
- Zain Saudi Arabia and 'Dawiyat' a subsidiary of Saudi Electricity Company sign a Letter of Intent to cooperate in the utilization of SEC's fiber-optic network.
- Zain Group CEO, Scott Gegenheimer elected as a member of the Board of Directors of GSM Association (GSMA) for a two-year period commencing 2017 to end of 2018.

SEPTEMBER



- Microsoft Azure ExpressRoute Program selects Zain Group as a preferred partner.
- Zain, UNHCR and Facebook collaborate to support Connectivity for Refugees initiative in Jordan offering free Wi-Fi to refugees and surrounding communities.
- Zain crowned 'Best Telecom Brand' at Telecom World Middle East Awards 2016 for third consecutive year.

AUGUST



- Iraq Wallet expands “ZainCash” service to boost e-commerce with country’s first online payment solution.
- Zain Iraq and Ericsson sign a three-year extension of their network and IT operation and optimization managed services agreement.

JUNE



- Zain Group and operations clinch five prizes at 2016 Global Telecoms Business (GTB) Innovation Awards held in London.
- Fifth annual sustainability report entitled ‘Building the Future’ published by Zain Group.
- Zain Group hosts successful Talent Acquisition Summit in collaboration with LinkedIn.

MAY



- A group-wide partnership with leading hotel site Booking.com announced to reward Zain customers. By end of 2016, offering rolled out in Kuwait, Iraq, Bahrain and Lebanon.

APRIL



- Zain Sudan launched high-speed 4G LTE services, marking the first time the mobile broadband technology has been available in the country and the sixth Zain operation to do so.
- Kuwait’s ‘Ghinwa’ wins top prize at the Zain sponsored MIT Enterprise Forum Arab Startup.

MARCH



- The EFG Sailing Arabia – The Tour 2016 race sees the Zain Sailing team finish in the top 5.
- Zain Iraq launched #HassaEliya, a multi-faceted program to inspire and empower Iraqi youth.
- Zain Group becomes signatory to the GSMA’s Humanitarian Connectivity Charter.

FEBRUARY



- Zain makes strategic investment in neXgen Group, forming a ‘smart city’ business unit.
- A strategic stake in innovative mobility provider and consultancy firm FOO acquired by Zain.
- Zain Kuwait enters MoU with Huawei to develop its mobile business-to-business (B2B) services across the country relating to public safety, industry Internet of Things (IoT) applications and emergency communication services.

JANUARY



- Zain reveals new thought-leadership report at WEF Davos, which links innovation to overcoming regional challenges, entitled “Bringing the Future Closer with Innovation”.



THE WORLD OF ZAIN

1• KUWAIT

100% OWNERSHIP

REVENUES: \$1,067 m
CUSTOMERS: 3.0 m
PREPAID: 74%
MARKET SHARE: 38%

2• IRAQ

76% OWNERSHIP

REVENUES: \$1,083 m
CUSTOMERS: 12.7 m
PREPAID: 99%
MARKET SHARE: 39%

3• SUDAN

100% OWNERSHIP

REVENUES: \$709 m
CUSTOMERS: 12.5 m
PREPAID: 99%
MARKET SHARE: 46%

4• KSA

37% OWNERSHIP

REVENUES: \$1,903 m
CUSTOMERS: 10.7 m
PREPAID: 83%
MARKET SHARE: 23%

5• JORDAN

96.52% OWNERSHIP

REVENUES: \$483 m
CUSTOMERS: 4.3 m
PREPAID: 83%
MARKET SHARE: 36%

6• BAHRAIN

55% OWNERSHIP

REVENUES: \$175 m
CUSTOMERS: 971 k
PREPAID: 79%

7• SOUTH SUDAN

100% OWNERSHIP

CUSTOMERS: 611 k
PREPAID: 99%

8• LEBANON

MANAGEMENT CONTRACT (MC)

CUSTOMERS: 2.3 m
PREPAID: 86%
MARKET SHARE: 54%

9• MOROCCO

15.5% OWNERSHIP



OPERATIONS SNAPSHOT



OPERATIONS SNAPSHOT

ZAIN KUWAIT

Mobile Telecommunications Company (Zain) was founded in 1983 in Kuwait. The Group's flagship operation has enjoyed a proud history of achievements since then, including in 1994 when it became the first telecom operator to launch a commercial GSM service in the region. First listed on the Kuwait Stock Exchange in 1985, Zain had a market capitalization of approximately USD 6 billion closing at Fils 410 as of 31 December, 2016.

1 ZAIN KUWAIT ENJOYS THE HIGHEST ARPU IN THE GROUP AT USD 27.

DATA REVENUES FORMED 36% OF TOTAL REVENUES, OPERATOR HAS 2,020 4G LTE SITES.



With a leading customer market share in Kuwait of 38% as of 31 December, 2016, the operator was able to improve its market position in 2016 reporting year-on-year (Y-o-Y) customer growth of 1% to 3.0 million, contributing 6% to the Group's total customer base.

The postpaid segment accounted for 26% of Zain Kuwait's customers at the end of 2016, with prepaid users accounting for the remainder. The operator continues to have one of the highest ARPUs in the Group's portfolio, standing at USD 27 which in turn generated total revenue of KD 322 million (USD 1.1 billion) and EBITDA of KD 160 million (USD 531 million), and net income for the year stood at KD 90 million (USD 298 million).

Notably, for the full-year 2016, data revenues (excluding SMS & VAS) formed 36% of total revenues. Zain's nationwide 4G LTE network covered the entire population via 2,020 network sites.

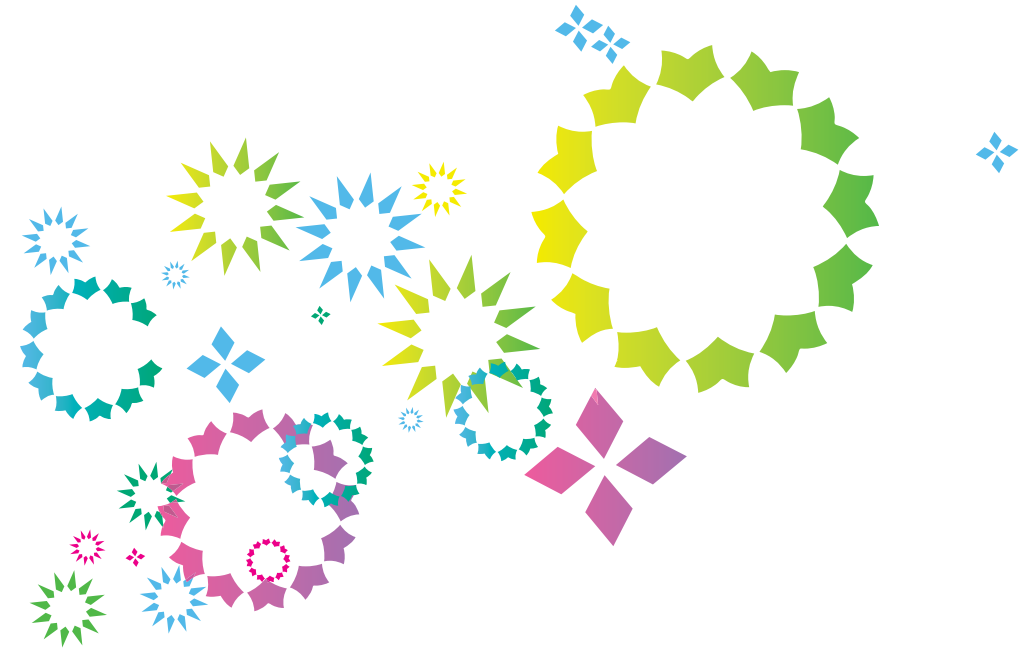
Ensuring a consistently superior customer experience is at the center of the Zain Kuwait's strategy, and throughout the course of the year, the operator introduced a wide array of appealing offers across all popular smartphone devices supported by a wide range of promotions that included high-value postpaid voice plans for a commitment of 24 months with a free diamond or platinum number; free smartphones; and free data share devices. Zain Kuwait also offered special prepaid plans for the 2016 National Assembly candidates to support their campaigns as well as special packages for Kuwaiti students in the USA registered with the National Union of Kuwaiti Students UK & Ireland for roaming and local tariffs. The operator also undertook a major revamp across its prepaid, postpaid and broadband portfolios.

Utilizing two main industry metrics in 2016: Brand Health Evolution score and the Net Promoter Score, reported

by Ipsos and Nielsen respectively, Zain Kuwait continued to be the leading operator in terms of customer satisfaction, quality and brand perception.

Committed to Kuwaitization and a strong advocate of giving back to the community it serves, Zain is one of the companies of choice for new graduates as well as for established professionals in the country. Its Corporate Sustainability program covers numerous areas such as Ramadan initiatives, environmental, health and children focused programs, as well as supporting Loyac and Injaz youth empowerment programs helping youth to develop their skills, and preparing them for success in the global economy and beyond.

Looking ahead, Zain Kuwait is aiming to become a digital lifestyle provider and companion that goes beyond pure connectivity and enhances the lives of its customers. This extends to the offer of convenient e-commerce and e-health solutions as well as gaming applications. Through the technology and innovative services it offers, Zain is improving the quality of life, comfort and security of the community in Kuwait.



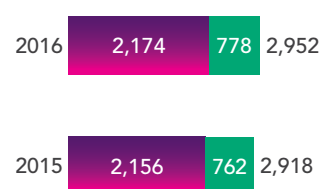
OPERATIONAL & FINANCIAL PERFORMANCE	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Customers (000s)	2,952	2,918	2,665	1%
Revenues (USD m)	1,067	1,074	1,218	(1%)
EBITDA (USD m)	531	526	583	1%
EBITDA %	50%	49%	48%	-
Net Profit (USD m)	298	314	389	(5%)
ARPU	\$27	\$30	\$36	-
Capex (USD m)	101	153	137	(34%)

FINANCIALS: P&L (USD M)	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Gross Revenues	1,067	1,074	1,218	(1%)
Cost of Sales	237	214	338	11%
Gross Margin	830	860	880	(4%)
Opex	299	335	297	(11%)
EBITDA	531	526	583	1%
Net Profit	298	314	389	(5%)

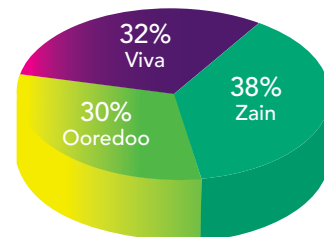
CAPEX BREAKDOWN (USD M)	2016	2015
Network	87	118
IT	13	33
Others	1	2
Total Capex	101	153

NETWORK KPIS	
Average Daily Data Volume (TB)	1,139
2G Population Coverage	98%
3G Population Coverage	100%
LTE Population Coverage	98%
Contact Centre Availability	100%

OPCO CUSTOMERS (000S)



MARKET SHARE



■ Prepaid ■ Postpaid

OPERATIONS SNAPSHOT

ZAIN IRAQ

Zain has been providing mobile services in Iraq since December 2003. After securing a 15-year license in August 2007, the company acquired Iraqna's network, becoming the largest mobile operator in the country. Zain Group subsequently increased its ownership in the Iraq entity from 30% to 76%, maintaining management control and attaining majority control. Zain Iraq (Al Khatem Telecoms) is listed on the Iraq Stock Exchange (ISX) with a market capitalization of more than USD 5 billion (share price of IQD 3.3) as of 31 December, 2016.



**CUSTOMER BASE
GREW 14% Y-O-Y
TO 12.7 MILLION.**

Leading the Iraqi mobile market with a 40% market share with a customer base of 12.7 million, which grew by 14% Y-o-Y in 2016, Zain Iraq represents the Group's largest overall customer base, accounting for 27% of its total base at the end of December 2016. Zain Iraq's prepaid segment accounted for 99% of the operator's total customer base in 2016.

The continued political instability in Iraq during the year has resulted in regular network interruptions and associated higher network operational costs. These unavoidable occurrences coupled with heightened levels of price competition and the 20% sales tax levied on mobile services as well as wide-ranging tax increases on other sectors in Iraq, all contributed negatively on Zain Iraq's key financial metrics. Revenues for the year reached USD 1.1 billion, down by 11% Y-o-Y, which still represented a valuable 31% of Zain Group's total consolidated revenues for the year. EBITDA amounted to USD 394 million, down 18% Y-o-Y. Zain Iraq ended 2016 with a net loss of

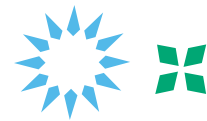


**ZAIN IRAQ HAS
BEEN LISTED
ON THE ISX SINCE JUNE 2015.**

USD 5.2 million, severely impacted by a one-time hit of USD 93 million payment of a capital gain tax settlement and other taxes, which resulted in the lifting of the restrictions on the company's blocked cash in Iraq.

For the first time in the country, November saw Zain Iraq, in cooperation with Huawei, announcing the successful commission of the installation of a state-of-the-art converged billing and charging platform that replaces legacy infrastructure with a modern, unified charging, billing and CRM solution. This system is capable of effectively handling all services and customer types, bringing a fluidity to services including voice and data, billing options, and customer segment offerings. The time-to-market from concept to product launch has been dramatically reduced and customers will now enjoy a wider range of services at attractive price points.

Another highlight for Zain Iraq during the year was the award of CommsMEA's



Best Marketing Campaign of the Year to the company for its 'Hassa Eliya' (Now for Me) campaign, which inspired and empowered young Iraqi talent by encouraging them to explore their potential, and helped equip them with the necessary tools to achieve their goals.

Among many distinctive new customer-centric services and numerous Corporate Sustainability initiatives, Zain Iraq launched the country's first online payment solution, "ZainCash". This life-enhancing service is set to boost e-commerce and support families in sending and receiving much needed funds. The service has been recognized by multiple award-giving institutions, all acknowledging the importance that such a service fuels in Iraq.

Zain Iraq is also actively working at increasing its geographical presence, coverage and capacity within the country. The operator invested USD 96 million in CAPEX in 2016, mainly in network expansion in the northern region of Iraq. Zain Iraq counted 4,327 sites across the country at the end of the year, with population coverage of 99%. Data revenues (excluding SMS & VAS) represent 9% of total revenues, reflecting an annual growth rate of 21%.



OPERATIONAL & FINANCIAL PERFORMANCE	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Customers (000s)	12,672	11,093	13,768	14%
Revenues (USD m)	1,083	1,219	1,601	(11%)
EBITDA (USD m)	394	480	578	(18%)
EBITDA %	36%	39%	36%	-
Net Loss (USD m)	(5)	122	256	(104%)
ARPU	\$8	\$8	\$9	-
Capex (USD m)	96	212	208	(55%)

FINANCIALS: P&L (USD M)	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Gross Revenues	1,083	1,219	1,601	(11%)
Cost of Sales	353	360	541	(2%)
Gross Margin	731	859	1,060	(15%)
Opex	337	379	482	(11%)
EBITDA	394	480	578	(18%)
Net Loss	(5)	122	256	(104%)

CAPEX BREAKDOWN (USD M)	2016	2015
Network	85	172
IT	10	40
Others	0.5	0.4
Total Capex	96	212

NETWORK KPIs	
Average Daily Data Volume (TB)	136
2G Population Coverage	99%
3G Population Coverage	73%
Contact Centre Availability	99%

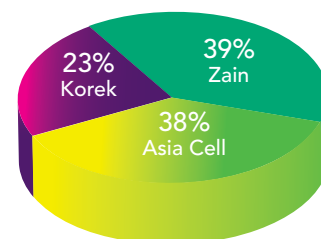
OPCO CUSTOMERS (000S)

2016 12,532 140 12,672

2015 10,988 105 11,093

■ Prepaid ■ Postpaid

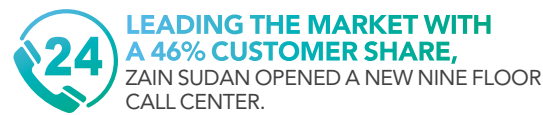
MARKET SHARE



OPERATIONS SNAPSHOT

ZAIN SUDAN

In February 2006, Zain acquired the outstanding 61% stake of Mobitel, Sudan's first mobile operator, in a deal valued at USD 1.33 billion. The company was rebranded to Zain in September 2007 and subsequently renewed its license for a period of 20 years.



The highlight of the year occurred in April 2016, with Zain Sudan officially launching high-speed 4G LTE, marking the first time the mobile broadband technology has been available in the country and the sixth Zain operation to do so. The first stage of the introduction saw 4G coverage being extended to the central and populated areas of the capital Khartoum; Medani; Port Sudan and El Obeid as well as a further 13 cities in a gradual deployment as agreed with the country's National Telecommunication Corporation. The introduction of 4G places Sudan at the forefront of countries providing mobile data services on the continent, and places Sudan in an advanced position technologically.

Also of note during the year was the opening of a new state-of-the-art nine-floor call center to meet customers' needs. The call center employs 1,150 people working in shifts, training rooms and a computer lab with a new recording studio.

Boosting entrepreneurship and the startup ecosystem in the country, Zain Sudan partnered the first business accelerator program in collaboration with Khartoum Innovation Hub, which saw 366 projects participating, and a total of 584 participants, 21 of which are set to secure a place at the accelerator program. 20% of the winning places are dedicated for women empowerment projects. The program lasted for 100 days with the participants lectured on the business skills necessary to turn their ideas into viable businesses.

With a leading customer market share of 46% as of 31 December, 2016, Zain Sudan was able to further improve its market position by reporting Y-o-Y customer growth of 6% to reach 12.5 million customers at the end of the year, contributing 27% to Zain Group's total customer base.

Zain Sudan contributed 20% to the Group's overall revenues in 2016 with an ARPU of USD 5.

The growth in customers was a result of the introduction of innovative voice and data packages and aggressive marketing promotions and incentives, predominantly for smartphone users taking advantage of the introduction of state-of-the-art 4G LTE network.

Zain Sudan's full-year performance was affected by further currency devaluations of 60% against USD. In local currency (SDG) terms, the operator continues to perform well, as revenues grew by 15% Y-o-Y to reach SDG 5.2 billion (USD 709 million, down 1% in USD terms) for the full-year 2016. EBITDA increased by 4% to reach SDG 2.1 billion (USD 290 million, down 7% in USD terms) while net income decreased 62% to reach SDG 398 million (USD 91 million, down 44% in USD terms).

By the end of 2016, Zain Sudan's network covered 90% of the population through 2,465 network sites. Data revenues (excluding SMS and VAS) accounted for 13% of total revenues, with a remarkable growth of 42% Y-o-Y (up 23% in USD terms).

OPERATIONAL & FINANCIAL PERFORMANCE	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Customers (000s)	12,535	11,869	11,372	6%
Revenues (USD m)	709	717	669	(1%)
EBITDA (USD m)	290	311	269	(7%)
EBITDA %	41%	43%	40%	-
Net Profit (USD m)	91	163	98	(44%)
ARPU	\$5	\$5	\$5	-
Capex (USD m)	216	237	183	(9%)

FINANCIALS: P&L (USD M)	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Gross Revenues	709	717	669	(1%)
Cost of Sales	170	161	154	5%
Gross Margin	539	556	515	(3%)
Opex	250	245	246	2%
EBITDA	290	311	269	(7%)
Net Profit	91	163	98	(44%)

CAPEX BREAKDOWN (USD M)	2016	2015
Network	129	207
IT	82	16
Others	5	14
Total Capex	216	237

IN LOCAL CURRENCY TERMS (SDG)

OPERATIONAL & FINANCIAL PERFORMANCE	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Customers (000s)	12,535	11,869	11,372	6%
Revenues (SDG m)	5,220	4,558	4,025	15%
EBITDA (SDG m)	2,061	1,977	1,619	4%
EBITDA %	39%	43%	40%	-
Net Profit (SDG m)	398	1,038	586	(62%)

FINANCIALS: P&L (SDG M)	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Gross Revenues	5,220	4,558	4,025	15%
Cost of Sales	1,295	1,025	925	26%
Gross Margin	3,925	3,534	3,100	11%
Opex	1,865	1,557	1,480	20%
EBITDA	2,061	1,977	1,619	4%
Net Profit	398	1,038	586	(62%)

NETWORK KPIs

Average Daily Data Volume (TB)	160
2G Population Coverage	90%
3G Population Coverage	46%
LTE Population Coverage	30%
Contact Centre Availability	100%

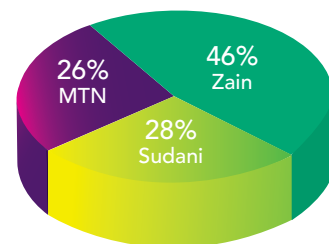
OPCO CUSTOMERS (000S)

2016 12,361 174 12,535

2015 11,726 143 11,869

■ Prepaid ■ Postpaid

MARKET SHARE



OPERATIONS SNAPSHOT

ZAIN KSA

Zain launched commercial operations in the Kingdom of Saudi Arabia on August 26, 2008, a year after it was awarded its mobile license. The Group holds a 37% equity stake in the operation, while the remaining ownership is distributed between a Saudi consortium, which owns 21%, and 42% that is free floating on the Tadawul stock exchange. Zain Saudi Arabia (Zain KSA) is listed on the Saudi Tadawul Stock Exchange (MTC KSA, 7030) with a market capitalization approximately USD 1.3 billion (share price SAR 8.3) as of 31 December, 2016.



On October 1st, 2016, Zain KSA received a High Order extension of 15 Hijri years to its telecommunications license, effectively extending the license term from 25 Hijri years to 40 Hijri years (the license term is now between 29 March 2008 and 18 January, 2047). The impact of this extension was the immediate reduction of Zain KSA's license fee amortization, which amounts to approximately SAR 433 million (USD 115 million) per annum, in effect reducing the Company's net losses by the same amount.

The High Order also requires the company to pay 5% of its net income over the 15-year extension as soon as the original 25 Hijri year-term elapses, and obliges that Zain KSA coordinate with the Kingdom's Ministry of Finance to discuss alternatives regarding the amounts due to the Government. The High Order additionally granted Zain KSA the opportunity to migrate

to a unified telecommunications license that supports both service and technology neutrality, allowing the operator to provide all telecommunications services using appropriate technologies within approved frequency bands, including fixed services.

Another positive development in 2016 was the reduction of Mobile Termination Rates (MTRs) in the Kingdom by the Communications and Information Technology Commission from 15H to 10H and Fixed Termination Rates (FTRs) from 7H to 4.5H. These two significant developments enhanced Zain's ability to offer more competitive services to customers.

During the year, Zain KSA entered a new USD 600 million commercial loan facility agreement with Industrial and Commercial Bank of China (ICBC) to support its network upgrades and expansion. Reducing the cost

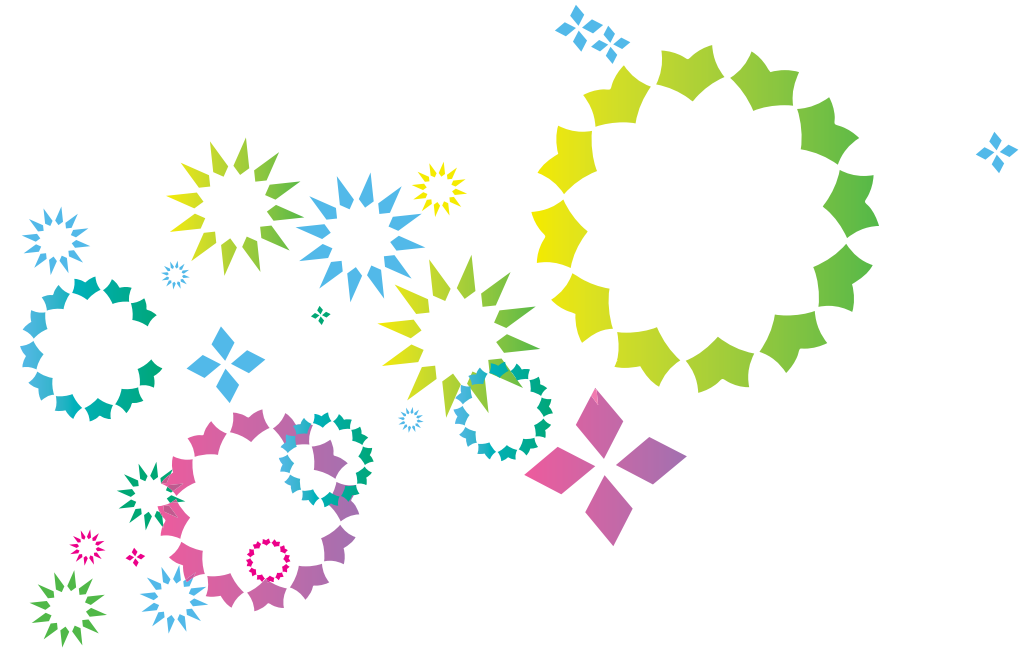
of financing is an important element of Zain KSA's transformation plan.

The fourth quarter also marked the end of an arbitration process between Zain and Mobily, with the final judgement of the arbitration panel being positive towards Zain KSA as it required the company to pay less than 10% of the claim, an amount that was already provisioned and thus had no additional impact on net earnings.

The adoption of the new biometric system by the Kingdom's regulatory authorities impacted the customer base, which dropped by 10% Y-o-Y, to 10.7 million customers as of 31 December, 2016, representing 23% of the Group's total customer base. Zain KSA managed to increase its market share to 23% in 2016, up from 20% in 2015. Overall ARPU stood at USD 14.

For the full-year 2016, Zain Saudi Arabia's robust performance was underpinned by a 2.4% increase in revenues to USD 1.9 billion. EBITDA for the year jumped by 10% to USD 479 million, with an improved EBITDA margin of 25% was reported compared to 23% in 2015. Net losses for the year stood at USD 261 million.

The operator also witnessed a 36% rise in data revenues Y-o-Y (excluding SMS & VAS), which represented 33% of total revenues as Zain KSA continues to expand its state-of-the-art 4G LTE network, which currently covers 94% of the population through 7,598 network sites.

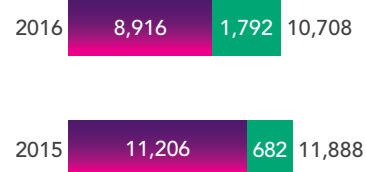


OPERATIONAL & FINANCIAL PERFORMANCE	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Customers (000s)	10,708	11,888	9,011	(10%)
Revenues (USD m)	1,903	1,858	1,715	2%
EBITDA (USD m)	479	434	293	10%
EBITDA %	25%	23%	17%	-
Net Loss (USD m)	(261)	(259)	(339)	(1%)
ARPU	\$14	\$14	\$16	-
Capex (USD m)	788	487	211	62%

CAPEX BREAKDOWN (USD M)	2016	2015
Network	755	433
IT	19	34
Others	14	20
Total Capex	788	487

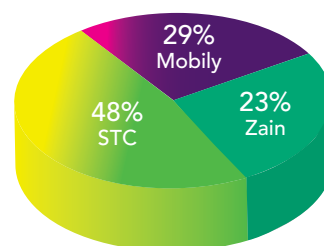
NETWORK KPIs	
Average Daily Data Volume (TB)	2,864
2G Population Coverage	94%
3G Population Coverage	91%
LTE Population Coverage	87%
Contact Centre Availability	100%

OPCO CUSTOMERS (000S)



■ Prepaid ■ Postpaid

MARKET SHARE



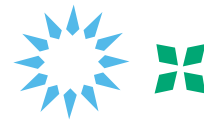
OPERATIONS SNAPSHOT

ZAIN JORDAN

In 1994, Zain Jordan revolutionized the telecom sector in the Kingdom by becoming the first to introduce mobile services (as Fastlink). In 2003, the operator notched up another first by joining Zain Group's Middle East portfolio, and despite intense competition in this liberalized market, the operator has remained the leading telecom player in the country.

1 MAINTAINS THE CUSTOMER MARKET LEADERSHIP AT 36%. CUSTOMER BASE JUMPED BY 5% Y-o-Y.

DATA REVENUES GREW BY 23%, REPRESENTS 34% OF TOTAL REVENUES.



Significant competition and falling voice prices characterize the telecom market in Jordan, though Zain Jordan maintained its market leadership of 36% as of the end of 2016. The operator served 4.3 million customers, a base which grew by 5% Y-o-Y, representing 9% of Zain's total customer base at the end of 2016.

For the full-year 2016, revenues improved by 5% Y-o-Y, to USD 483 million, as compared to USD 459 million 2015, while EBITDA decreased by 5% Y-o-Y to USD 240 million with an impressive EBITDA margin of 50%. The strong EBITDA margin was mainly due to improved gross margins, with net income for the year reaching USD 105 million, down from USD 122 million in 2015. Data revenues (excluding SMS & VAS) represented 34% of total revenues, and grew by 23% as compared to 2015.

Zain Jordan's strategy is focused on

identifying new revenue streams and exploring new opportunities and concepts such as home security. During the course of the year the operator became a major player in the enterprise and connectivity management arena.

The operator's strategy is to become a one-stop shop to customers, where all communication services can be accessed. To raise awareness of this, massive campaigns were undertaken to educate customers about the range of services and products offered at Zain shops across the country.

Zain Jordan recognizes that enterprise technologies and services powered by 4G/LTE will be the major revenue drivers in the coming years, compensating for the decrease in voice revenues. The company is investing in fixed LTE service, which will allow it to increase data revenues especially in lower ARPU regions in the Kingdom.

Zain Jordan's network covered the entire population, increasing its total number of network sites to 2,401, of which 1,482 are 4G sites.

There were many highlights throughout the year for Zain Jordan as it continued to be recognized by establishments across the globe for its innovation in providing customers with compelling digital services and products. Innovations that we introduced include multiple attractive data packages such as a new youth product "Social Mix"; and a postpaid product named Private, in which customers can customize their packages based on their needs by choosing a special optional bundle. The package also delivers a choice of numerous OTT video services with MBC Shahid, Starz Play and ICFLIX. Content also extends to OSN and beIN services provided over Zain Fiber and Zain Ethernet products as part of a full Home Product solution which includes the OTT video content.

2016 also saw Zain Jordan recognized at the Global Telecoms Business (GTB) Innovation Awards in London and at the Telecoms World Middle East Awards in Dubai for offering the best consumer service with respect to its efforts to expand access to financial services. Zain Jordan introduced a mobile wallet offering to hundreds of thousands of unbanked people through its "Zain Cash" secure and convenient mobile money service, which was launched in partnership with eServGlobal.



OPERATIONAL & FINANCIAL PERFORMANCE	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Customers (000s)	4,257	4,070	3,849	5%
Revenues (USD m)	483	459	469	5%
EBITDA (USD m)	240	251	193	(5%)
EBITDA %	50%	55%	41%	-
Net Profit (USD m)	105	122	114	(14%)
ARPU	\$9	\$9	\$9	-
Capex (USD m)	66	50	59	31%

FINANCIALS: P&L (USD M)	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Gross Revenues	483	459	469	5%
Cost of Sales	88	93	111	(5%)
Gross Margin	394	366	358	8%
Opex	154	115	165	34%
EBITDA	240	251	193	(5%)
Net Profit	105	122	114	(14%)

CAPEX BREAKDOWN (USD M)	2016	2015
Network	60	45
IT	2	-
Others	4	5
Total Capex	66	50

NETWORK KPIs	
Average Daily Data Volume (TB)	540
2G Population Coverage	100%
3G Population Coverage	99%
LTE Population Coverage	92%
Contact Centre Availability	100%

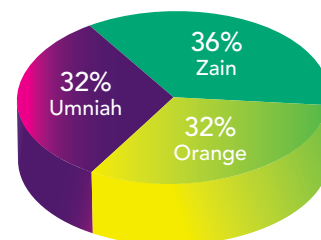
OPCO CUSTOMERS (000S)

2016 3,545 712 4,257

2015 3,427 643 4,070

■ Prepaid ■ Postpaid

MARKET SHARE



OPERATIONS SNAPSHOT

ZAIN BAHRAIN

Zain Bahrain began commercial operations in the Kingdom in December 2003. At the time, it was known as MTC Vodafone. With its progressive introduction of 3.5G, WiMAX and most recently 4G LTE, Zain has tapped into a rich seam of telecommunication records, placing the company and Bahrain on the global telecom map. Zain Bahrain is listed on the Bahrain Bourse (ZAINBH) with a market capitalization approximately USD 98 million (share price BD 0.100) as of 31 December, 2016.



Despite the high rate of mobile penetration in the Kingdom, Zain Bahrain's customer base surged to 971,000 at the end of the year, up 22% from 795,000 at the end of 2016 as innovative products and services offering a fully integrated digital lifestyle continued to attract customers. The operator also benefited from growing awareness of the compelling performance of its world-class 4G LTE network.

For the full-year of 2016, Zain Bahrain's financial results were impacted by the fierce competition in the Kingdom, with revenues reaching USD 175 million, down from USD 191 million in 2015. EBITDA for the period amounted to USD 66 million, reflecting an EBITDA margin of 38%. Net income for the year fell by 17% Y-o-Y to USD 11 million. Data revenues (excluding SMS & VAS) represented 41% of overall revenues, up 11% Y-o-Y. The operator's network

currently covers the entire population, with a total of 499 network sites.

With severe competition in this dynamic mobile market, Zain Bahrain's ARPU amounted to USD 15 for the year in 2016.

The operation was active throughout the year in its service promotions, which included a New Year offer of a free television and PlayStation 4 with certain home broadband packages. Several tie-ups with major content and service providers, including Google Play, ICFLIX, MBC Shahid, and Booking.com, added value to Zain Bahrain's digital lifestyle offerings.

In line with its commitment to innovation and enhancing customer experience, Zain Bahrain introduced the Kingdom's first 'Truly Unlimited Social Media' prepaid and postpaid packages, with customers not being billed for data used via social media applications beyond their initial subscriptions.

With respect to Corporate Sustainability, Zain Bahrain worked in collaboration with the Ministry of Labor and Social Affairs and the Ministry of Industry, Commerce and Tourism, together with various educational institutions to help jobseekers better compete in the job market. The company also continued its support of the Zain Bahrain E-Learning Center. 2016 saw the signing of a partnership with AIESEC, the world's largest youth-run organization, with the aim of fostering youth empowerment and development.

Zain Bahrain continued its support of Bahrain's burgeoning entrepreneurship community, participating in the 'Kun Muntijan' event organized by Tamkeen in which the Kingdom's micropreneurs were invited to participate in Zain Bahrain's in-house learning and development courses. The entrepreneurs were also invited to participate in 'Khameesna Zain' (Zain Thursdays), a showcase for local start-ups held every week at the company's headquarters.

Additionally, Zain Bahrain rolled out cutting-edge mobile learning (m-Learning) and Augmented Reality (AR) technologies to enable all employees to access learning materials on-the-go via their smartphones, laptops, and tablets.



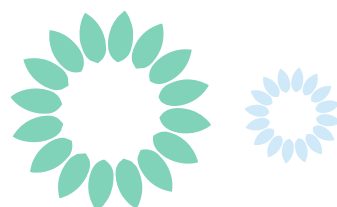
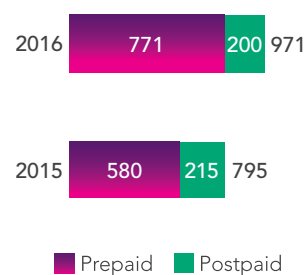
OPERATIONAL & FINANCIAL PERFORMANCE	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Customers (000s)	971	795	788	22%
Revenues (USD m)	175	191	194	(9%)
EBITDA (USD m)	66	75	72	(12%)
EBITDA %	38%	39%	37%	-
Net Profit (USD m)	11	14	11	(17%)
ARPU	\$15	\$19	\$19	-
Capex (USD m)	31	33	101	(6%)

FINANCIALS: P&L (USD M)	2016	2015	2014	YOY GROWTH (2016 VS 2015)
Gross Revenues	175	191	194	(9%)
Cost of Sales	33	32	42	2%
Gross Margin	142	159	153	(11%)
Opex	76	84	81	(9%)
EBITDA	66	75	72	(12%)
Net Profit	11	14	11	(17%)

CAPEX BREAKDOWN (USD M)	2016	2015
Network	26	26
IT	5	7
Others	0.2	0.4
Capex	31	33

NETWORK KPIs	
Average Daily Data Volume (TB)	292
2G Population Coverage	100%
3G Population Coverage	100%
LTE Population Coverage	100%
Contact Centre Availability	100%

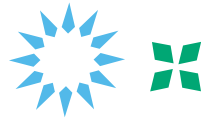
OPCO CUSTOMERS (000S)



OPERATIONS SNAPSHOT

TOUCH LEBANON

In June 2004, Zain Group won a four-year management contract to operate one of Lebanon's two GSM networks. The operation is branded 'touch', and Zain has developed the operation in Lebanon to a high level by providing unprecedented services.



At the end of 2016, touch counted 2.3 million customers – an increase of 1% Y-o-Y, accounting for 5% of Zain Group's total customer base. With 1,307 network sites, the operator covers all the populated areas of Lebanon.

Touch's strategy is based on working closely with the country's Ministry of Telecommunications with the view to further enhance the operator's customer experience, diversifying its product portfolio, and monetizing data to strengthen the operator's leadership position while maintaining earnings.

One of touch's driving objectives is to become a significant digital player in Lebanon, focusing on innovation in its offering of new services and enabling a digital lifestyle experience for its customers. The operator also aims to develop enterprise (B2B) services and actively participate in the smart city revolution sweeping the region. Touch is also eyeing entering the e-market (E-health, E-education, etc.).

Several highlights for touch during 2016 include winning two prestigious awards at the Global Telecoms Business Innovation Awards in London. The first in recognition of the company's strategy to develop its digital portfolio having introduced the touch app on Apple watch. Created by FOO Solutions, a mobile solutions entity in which Zain took a strategic investment, the distinctive app allows customers to check their online balance, credit and validity, in addition to bundles (voice, SMS and/or data) consumption, on-the-go and in real-time. The application builds on touch's strong app positioning, having achieved in excess of one million downloads since its launch.

The second award recognized touch for introducing an augmented reality feature to engage customers using a unique mobile app, again created by FOO Solutions that saw over 800,000 downloads during the holiday seasons.

Furthermore, touch received an award from Teknotel for the "best customer service offered by a telecom operator in the Middle East".

In December, and following a Zain Group master agreement, touch partnered with Booking.com, the world leader in online accommodation bookings to provide its customers with cashback rewards. Customers can simply access the dedicated section of the touch website/mobile app to book their next stay anywhere in the world and benefit from up to 4% cashback of the booking value on their touch line.

Additionally, touch introduced the Vinli solution bringing in-car Wi-Fi, cloud-based connected car apps, and advanced safety services to vehicles in Lebanon. The offer consists of a device that plugs into any vehicle's On Board Diagnostics-II port to connect any car to touch's 4.5G advanced high-speed internet network. Passengers can then enjoy a wide range of applications from Vinli such as car diagnostics and maintenance, vehicle locator and theft alert, driver monitoring and family locator.

To enhance customer experience, touch is currently renovating six service centers into a more personalized and digitized experience including a digital kiosk, Smart Quality Management System and interactive screens.



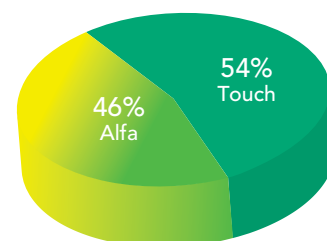
OPCO CUSTOMERS (000S)

2016 1,973 326 2,299

2015 1,955 319 2,273

■ Prepaid ■ Postpaid

MARKET SHARE



MARKET OVERVIEW



GLOBAL TELECOMMUNICATIONS INDUSTRY TODAY

The telecommunications industry continued to advance in 2016, driven mainly by the growth in India, China and Indonesia. Global mobile subscriptions (including cellular M2M) grew by 4.4% year-on-year reaching 7.9 billion while the total revenues generated by the operators have increased by 2.2% YoY¹.

The number of mobile broadband subscriptions grew almost 190 million in the third quarter of 2016, representing 25% growth YoY – reaching a total of approximately 4.1 billion².

Smartphone subscriptions surpassed those of basic handsets. 55% of all subscriptions are now smartphones, and in Q3 2016 smartphones accounted for 80% of all mobile phones sold³.

The adoption of new technologies

continued; CDMA/HSPA added around 60 million subscriptions during the quarter. LTE subscriptions continued to grow strongly, with 160 million new subscriptions added during Q3 2016 to reach a total of approximately 1.5 billion⁴. GSM/EDGE-only subscriptions declined by 100 million during Q3 2016. During the first three quarters of 2016, the number of VoLTE subscriptions grew strongly and is estimated to have surpassed 200 million at the end of the year⁵ due to the efficiency in bandwidth planning, which can help cope with broadband data demand.

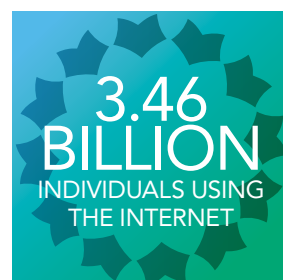
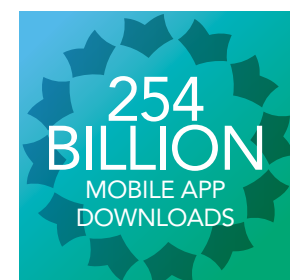
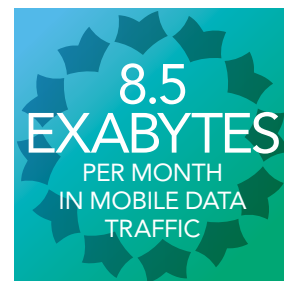
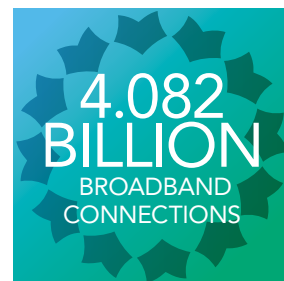
The significant increase in smartphone subscriptions led to an increase in data usage and traffic, which was fuelled primarily by the increased consumption of video content on mobiles.

Overall, data traffic grew around 10% quarter-on-quarter and 50% YoY⁶.

The growing demand for data services resulted in increased traffic on operators' networks requiring operators to invest more on enhancing network coverage and network quality. Service providers also need to consider new pricing models to manage data profitability to protect their bottom lines.

IT IS FORECAST THAT THE FIVE MAJOR DISRUPTIONS THAT WILL DRIVE THE MOST CHANGE IN TELECOMMUNICATIONS BY 2020 ARE:

- 1. Integration - The content contest:** Being connected continues to become cheaper. Connectivity is capturing an ever-smaller proportion of the information value chain, while content, service, and product deliverers capture an ever-greater share.
- 2. IoT - The traffic explosion:** Manufacturing processes are building connectivity into new 'things', in automobiles, at home and in the workplace, as standard practice. This Internet of Things will add billions of new connected data sources globally by 2020, generating zettabytes of data annually.
- 3. Mobility - The great wireless migration:** Mobile connectivity is replacing wireline connectivity as most growth is occurring in the developing world where mobile is cheaper, more convenient, and more useful, even when landline connectivity is an option.
- 4. Saturation - The search for growth:** People will have to use digitized assisted living facilities as standard, and will likely consume vastly more bandwidth resulting in virtually total saturation of markets.
- 5. Security - The network is the threat:** Carriers will demand proactive and innovative protection from the entire internet value chain; greater security may be an opportunity for carriers.



¹ GSMA Wireless Intelligence
^{2,3,4,5,6} Ericsson Mobility Report November 2016

MENA TELECOMMUNICATIONS INDUSTRY TODAY

The Middle East & North Africa region⁷ continued to face challenges on the economic and political fronts. In particular, the instability in oil prices, the political unrest, hyperinflation and the introduction of restrictive regulatory legislation placed a large amount of pressure on the region. Nevertheless, the telecommunications industry recorded positive growth in terms of mobile connections and internet penetration.

Mobile connections (including M2M) in the MENA witnessed an increase of 3.9% relative to Q4-2015 reaching 434 million in Q4-2016 accounting for 112% of the population⁸. The growth rate in connections is set to slow over the next few years due to saturation in the more advanced markets. Furthermore, the unstable political and economic situation in several countries will add another layer of difficulty in the future.

MENA has historically been one of the fastest growing regions in the world in terms of recurring revenues. However, 2013 and 2014 saw a reversal of this growth, with recurring revenues

declining by 1.9% and 1.5% respectively, mainly due to slowing subscriber growth and the socioeconomic conditions in the region. Looking forward, revenues are likely to grow modestly as mobile operators continue to monetize the strong growth in data traffic and as mobile broadband uptake continues. Telecom industry will not return to the levels previously enjoyed in the region due to further slowing of subscriber growth, ongoing political and socioeconomic instability, increasing competition and the cannibalization of traditional revenues by IP messaging platforms. Thus, mobile operators are under pressure to diversify their revenue streams, implement new services and find effective ways to monetize the growth in data traffic to counteract the revenue squeeze.

The region is witnessing continuing migration to mobile broadband services, helped by the expansion of 3G coverage and 4G roll out. The mobile broadband penetration (Including WCDMA, HSPA, LTE & WiMAX) grew to 56% in Q4-2016 with a total of 217 million users

accounted for 50% of total connections, up from 43% in Q4-2015. Growth in mobile broadband connections over the next few years will be relatively rapid: 82% of the region's population will possess mobile broadband services by 2020⁹.

4G is starting to accelerate despite the comparatively late arrival of 4G networks in the region. Since the first LTE networks were launched in late 2011, a total of 31 LTE¹⁰ networks have launched in 13 countries, and more countries plan to launch LTE networks in the next few years. The number of smartphone connections has more than doubled over the last three years to reach 187 million in Q4 2016, accounting for 43% of total connections in the region. The growth will continue in the future where 140 million new smartphones are expected to be added by 2020, closing the gap on the global average.



^{7,8,9,10} GSMA Wireless Intelligence, Mobile Economy MENA 2016; Zain's definition of Middle East includes Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.

REGULATORY MODERNIZATION IN THE REGION CAN HELP DRIVE GROWTH AND STABILITY

To strengthen the case for further investment in mobile broadband networks in MENA, the region's governments need to review and refresh their regulations, taxation policies and spectrum rules. At the same time, policymakers need to ensure that there is sufficient spectrum available to meet rising demand for mobile broadband and that their taxation policies encourage, rather than discourage, adoption of mobile services. Some countries in MENA also need to address key infrastructure bottlenecks, such as international gateways, to ensure their citizens and enterprises have affordable internet access⁷. Additionally, regulatory bodies should address a number of hot topics to help mobile network operators (MNO) preserve the value of their shareholders, and these include:

THE IMBALANCE BETWEEN THE MNOs AND OTTs

Rules that apply to mobile service providers are not applied proportionately to OTTs players. This situation can distort competition, discourage innovation and investment by the MNOs. A clear example of this are the differences in the respective regulatory regimes governing mobile operators, media companies and OTT players. Whereas mobile operators generally have to follow inflexible industry specific rules, internet players are typically subject to general antitrust and consumer protection regimes. In particular, regulation of conventional communications services and service providers is far more intrusive and prescriptive than the regulation governing equivalent services delivered via the internet.

THE HIGH COST OF LICENSE RENEWAL, SPECTRUM AND OTHER REGULATORY FEES

Policymakers need to consider the cost of license renewal and spectrum to encourage the mobile operators to invest and secure a return. It is important to recognize that spectrum is now a fundamental raw material for the economy. Policymakers need to ensure that the mobile industry isn't burdened with excessive fees and taxes that could hinder investment and growth.

DIGITAL TRANSFORMATION

An urgent need for regulatory reform to support digital services and convergence. Digital technologies and services are now so pivotal to modern life that their cost should not be artificially inflated through sector-specific taxation. Access to the internet is becoming essential to people in the region, as it is across the globe, so governments should support mobile operators by formulating supportive and flexible regulations that encourage operators to invest and expand coverage and offer affordable internet services. Consumers, enterprises and governments would all benefit from the modernization of digital regulations to ensure equivalent services are governed by the same flexibility

MAJOR GLOBAL TRENDS

Telecommunications is changing rapidly. For businesses to remain competitive, they must monitor the latest telecommunications developments and adapt their products and services to meet market demands.

IT AND TELECOMMUNICATIONS CONVERGENCE

In telecommunications, convergence describes the way distinct services are merging into single networks and devices, and fueled by the internet. This makes Internet Protocol (IP), cloud storage and computing services, and the massive deluge of data they have spawned foundational for businesses today. Convergence has been a common strategic response from mobile operators to the ongoing disruption, resulting in a number of M&A deals over recent years. The rationale for this current wave of convergence has been the pursuit of scale and the goal of offering an enhanced consumer experience, with content and services available across a range of devices and networks.

THE RISE OF THE MESSAGING APPS ECONOMY

The growing number of smartphones and other advanced devices is increasing the use of data-intensive applications, particularly video streaming, on mobile networks. This has resulted in an explosion of data traffic, with volumes forecast to grow at a CAGR of 49% over the next five years – a more than seven-fold increase – approaching 40 EB per month by 2020¹¹.

IP messaging apps are continuing to gain popularity across the globe. For example, leading online messaging platform WhatsApp has grown from 200 million users in April 2013 to 900 million in September 2015, and continues to expand. Facebook Messenger meanwhile has more than 700 million users, and QQ Mobile and WeChat have more than 600 million users respectively. According to app analytics firm App Annie, total messaging app downloads in 2014 were 53% higher than in the previous year¹².

M2M CONNECTIONS

A variety of M2M services such as home and office security and automation, smart metering and utilities, maintenance, building automation, automotive, healthcare and consumer electronics, and more, are being used across a broad spectrum of industries, as well as in the consumer segment. As real-time information monitoring helps companies deploy new video-based security systems, and can also help hospitals and healthcare professionals remotely monitor the progress of their patients, bandwidth-intensive M2M connections are becoming more prevalent. Globally, M2M connections are set to grow from 604 million in 2015 to 3.1 billion by 2020, a 38% CAGR.—a fivefold growth¹³.

THE RISE OF MOBILE VIDEO TRAFFIC

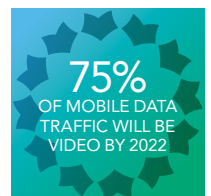
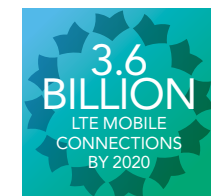
Mobile video growth will lead network operators to the virtualization and orchestration of key video delivery components such as content management systems and content delivery networks. Virtualization will enable network operators to scale capacity on demand, reduce stranded CAPEX and cost-effectively deliver multi-screen, OTT and 4K video services.

VoLTE

The penetration of VoLTE-capable smartphones is rapidly increasing. In October 2016, there were more than 600 VoLTE-enabled smartphone models, supporting different regions and frequencies. With around 100 million new subscriptions added in a period of 12 months, VoLTE is becoming mainstream, and the technology has now been launched commercially in more than 80 networks in around 50 countries. Uptake is projected to accelerate and reach 3.3 billion by the end of 2022, making up more than 60% of all LTE subscriptions globally. Live network measurements show that there are already networks where around 75% of voice calls on LTE smartphones are provisioned using VoLTE, and some large operators have shown a doubling of VoLTE usage in just six months¹⁴.

5G TECHNOLOGY

5G is the next phase of mobile technology. 5G's primary improvements over 4G include high bandwidth (greater than 1 Gbps), broader coverage, and ultra-low latency. Whereas 4G has been driven by device proliferation and dynamic information access, 5G will be driven largely by Internet of Everything applications. With 5G, resources (channels) will be allocated based on awareness of content, user, and location. This technology is expected to solve frequency licensing and spectrum management problems. While there are field trials being carried out by some operators, significant 5G deployments are not expected until 2020 and beyond¹⁵. There are several gating factors such as approval of regulatory standards, spectrum availability and auctioning and return-on-investment (ROI) strategies to justify the investment associated with new infrastructure transitions and deployments.



^{11,12} GSMA Wireless Intelligence, the mobile economy 2016

^{13,15} Cisco Visual Networking Index 2015-2020

¹⁴ Ericsson Mobility Report November 2016

OUR STRATEGY- A FOCUS ON EXECUTION

In 2014, Zain outlined its focused five-year strategy to create a strong and sustainable platform for growth against various challenges exerting pressure on the financial performance of the company. These included a backdrop of higher mobile penetration, increasing competition, unique externalities, underperformance of economies, and the accelerating adoption of OTT (Over the Top) solutions. We set ambitious targets driven by “Solidifying Fundamentals”, “Differentiation” and “Diversifying Revenues”. To execute the strategy and achieve the targets to build a sustainable digital communications company we focused on six transformational initiatives: “Customer Experience”, “Operational Effectiveness”, “Value Management”, “B2B”, “Digital Frontier and Innovation” and “Talent Development”, in a bid to serve consumers and enterprises with a rich lifestyle experience.

Today, global operators’ revenues are stagnating, despite operating and capital expenditures increasing. Moreover, “OTT players” — video, audio, and other services — are growing in number and popularity, making the traditional operators’ task that much more challenging, emphasizing the relevance of our transformational initiatives. Zain is focused on sustaining value in its core business of voice, messaging and mobile broadband and to fully exploit new revenue streams in the lucrative, but regionally-fragmented B2B segment. In addition, Zain is seeking to build scale in the emerging regional digital landscape covering areas such as e-Commerce, digital content, advertising, gaming and mobile application development. The company is enhancing its competitive positioning by expanding its role in the value chain of new business areas beyond connectivity, and is incorporating digitization as part of its core business.

2016 marked the continued transformation of the Group. As an organization, “Execution Focused Strategy” is our theme going forward. We made significant and encouraging progress across each of our six strategic initiatives, laying the foundations for continued success in the years to come.

CUSTOMER EXPERIENCE

During the year Zain continued Customer Experience enhancements built over Digital First, Effortless and Value Adding principles. Our goal is not simply customer satisfaction, but building a base of promoters, knowing that positive customer experience and advocacy drive competitive advantage, leading to faster organic growth and lower cost.

Across our footprint, we launched basic transactions digitally, built the digital framework to support the markets with unified best features, unified design and enabled digital customer acquisition. Moreover, we updated Customer Care technologies, improving accessibility and optimizing operations. This extended to reducing the cost of customer care, customer efforts, better accessibility and improved

agents’ productivity while adding value through capacity creation and infusion of the right culture in our channels to start generating revenue from existing contacts.

Going forward our aim is to continue deploying our Digital Customer Experience plan and online services, extending it to reach between 60 - 80% interactions in digital by 2018, delivering an omni channel experience; artificial Intelligence and Virtual Assistance, Digital Retail, and full Next Best Action (NBA) enabled by Customer Relationship Management, Content Management Systems and Business Intelligence.

OPERATIONAL EFFECTIVENESS

Zain’s goal is to become one of the most cost efficient providers globally. We are focused on reducing total cost of ownership (TCO) through a broad range of OPEX and CAPEX optimization initiatives combined with centralized procurement processes. These will help to drive efficiencies and maintain our healthy EBITDA margins.

Optimizing TCO is the main lever for net income sustainability. With service revenues under threat and lower mobile data ROI, TCO optimization is the primary means of guaranteeing sustainable net income. In pursuit of operational effectiveness and excellence, in 2016 Zain drove several initiatives aimed at operational alignment, optimized and value-based CAPEX planning and cost optimization in each of its operating companies.

The company’s CAPEX governance initiative, the approved CAPEX investment to be managed at the group level allowed optimization and efficient use of CAPEX. Initiatives at the operating company level included optimization of international connectivity costs, and network maintenance. Furthermore, Zain is investigating optimal approaches to divest passive infrastructure in Kuwait and Saudi Arabia.

VALUE MANAGEMENT

Today, Zain is the market leader in four markets (Kuwait, Sudan, Jordan and Lebanon) both in terms of value share and market share. With the many challenges that have been burdening the telecom industry in the recent years, Zain Group has embarked on several initiatives aimed at maximizing revenue extraction and the slowing of the erosion of core services revenues. It has achieved this by utilizing its business intelligence platforms to build a strong customer value management framework premised on well-defined customer segments in each of its markets. Moreover, data monetization is another key area for the company and initiatives are underway to implement data centric pricing, moving towards integrated bundles in our markets.

B2B

B2B represents tremendous growth opportunities for operators in the MENA region, which often lag behind international markets where B2B accounts for more than 20% of overall revenue in some cases.

Zain’s ambitions within the B2B space focus on building scale in enterprise mobility, fixed-mobile convergence solutions, connectivity, machine-to-machine (M2M) connectivity, as well as hosted and managed services including personal and corporate cloud services and applications. Zain’s B2B solutions help organizations of all sizes in verticals including oil and gas, automotive, transportation and logistics, utilities, banking, and governments, with specialized products and services aimed at meeting their unique requirements. Zain is also expanding its wholesale infrastructure to support content delivery networks. Applications include telemetry systems, smart metering, wireless security, cameras and fleet management.

DIGITAL FRONTIER AND INNOVATION

Established in 2014, Zain Digital Frontier and Innovation (ZDFI) team was established to develop an effectively functioning digital machine delivering sound commercial success for Zain in the digital space. The unit is geared to promote Zain as an innovative company across Middle East and focuses on the areas of innovation, digital services, corporate venturing and smart cities. ZDFI’s mandate is to:

- Determine innovative trends to lead regional implementations
- Exploit new digital opportunities in key verticals
- Participate in regional ICT venture capitalist funds focused on early stage companies
- Leverage venture capital capabilities to navigate the digital ecosystem
- Build smart cities eco-systems and develop a go-to-market approach

Ultimately, ZDFI aims to identify new business areas, value-adding strategic partnerships, accretive acquisition opportunities and synergistic corporate venturing investments which, collectively, will create new revenue streams to fully exploit the Group’s high-speed broadband networks, customer assets, network intelligence and payment and billing infrastructure. Within the digital services and innovation space, ZDFI is focused on identifying opportunities in the m-advertising, m-health, OTT communications, m-payments and financial technology services domains. The ultimate goal of ZDFI is to build new Group-wide digital businesses, internal capabilities and identify and invest in future viable opportunities. The company is also looking to become one of the leading trendsetters in the digital revolution in the region

Upon entering a strategic collaboration with NeXgen Group, a leading smart city advisory and consulting services provider based in the UAE in 2016, we deployed infrastructure and operate in Kuwait, Saudi Arabia and the UAE (Dubai).

ZDFI has been busy over the past year. In February 2016, Zain acquired a strategic stake in the innovative mobility provider

and consultancy firm FOO, which is a Lebanon-based, multi-faceted digital player. The aim of the investment is to fast-track and enhance Zain’s delivery of innovative services to customers and enterprises.

In May 2016, Zain Group made a ground-breaking agreement with Booking.com to offer Zain customers additional complimentary mobile services for using the hotel service through a dedicated URL.

In October 2016, the Group’s second Digital Services and Innovation forum was held in Kuwait drawing participants from across the Group’s operational companies, and for the first time in its four-year history, drew representatives from INWI, Zain’s affiliate company in Morocco.

In December 2016, Zain Group made a strategic investment in Colle Capital Partners, a global, opportunistic, early stage technology venture fund based in New York, with a presence in San Francisco. The investment firm has a diversified technology focus with an emphasis on data in the energy, media, telecommunications, health, IT, security, and software development sectors. The fund’s managers have access to unique, high quality investment opportunities.

ZDFI will continue to expand its reach with prospective acquisitions of digital businesses in the OTT and content space. Eventually, ZDFI’s goal is to build scale and become a leading enabler of digital businesses in the Middle East.

TALENT DEVELOPMENT

The best employers successfully align their people practices with company strategy and create a high performing environment with trusted leadership that produces positive employee experiences, higher employer brand and strong business results. This outlook underpins Zain’s employee value proposition, which focuses on:

- Awarding: A strong Performance Management Framework aligned with the strategy to encourage top performers
- Resourcing: Group Centers of Excellence and Group-wide Mobility Framework
- Performing: Integration of competencies in all areas of Human Resources
- Learning and Innovating: Establishment of a leadership development strategy and culture of innovation
- Connecting: Introduce Human Resources communication strategy with focus on implementing Group-wide action items as a result of the company engagement survey
- Caring: Enhancing Group-wide employer branding with the Employer Value Proposition

During 2016, Zain also introduced its Performance Process Committee and embedded calibration process, and formed talent pool programs based on business-critical roles. The company also leveraged its partnership with lynda.com for e-learning and online trainings where all trainings are linked to strategy.

TOGETHER WE ARE ZAIN



The Human Resources division of Zain Group and its operating countries introduced significant strategic initiatives during the course of 2016. Building on our Employee Value Propositions (EVP), introduced in 2015, the year 2016 saw exciting projects implemented based on these propositions.

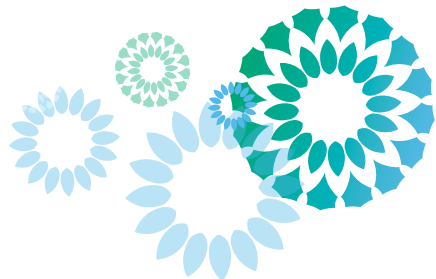
EMPLOYEE ENGAGEMENT

At the Group level, employee engagement was top-of-mind thanks to regularly arranged engagement activities. This year saw the introduction of celebrating employee birthdays and work anniversaries on a monthly basis, an initiative also shared with Zain Iraq and Zain Sudan.

Casual conversations and smaller group settings allowed for more communication and openness, strengthening employee relationships at the Group level.

For employees in Zain operating countries – who total over 7,000 employees – year-on-year engagement scores showcased the positive effects of employee engagement, with the score for 2016's overall engagement growing to 80% from 76% the year earlier.

Employee engagement will continue to be important in 2017, as it has the power to bring a sense of belonging among Zainers.



TALENTED TOGETHER

The Talented Together mobility program was introduced in late 2015 and took off in 2016. The program seeks to uncover rare and business critical skill sets across Zain operating countries. Once these Zainers are identified, they are deployed to a specific operating country where they are empowered to train those on the ground.

The Talented Together pilot project was launched mid-year, and was based on the search for Data Scientists. Data Scientists are a rare and coveted skill set in the region. Twenty Zainers from within operating countries were identified as possessing this skill set. A second project was launched shortly after, this time to support customer value management functions.

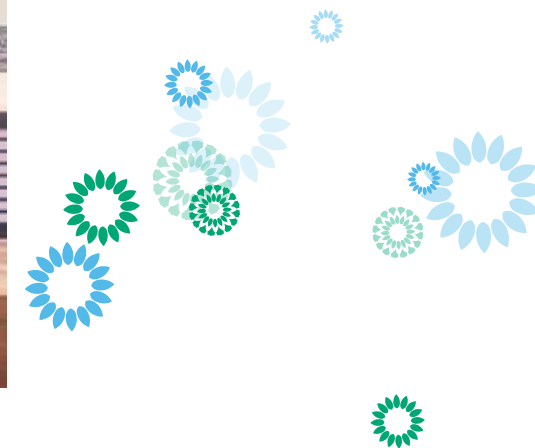
The Talented Together mobility program will see exciting developments in 2017 as there will be a four-pronged approach to the program – expert, developmental, strategic and cross-operating country-transfers. Mobilizing Zainers across the operations is a true testament to the mobility teams working together to achieve the company's strategic goals.



ZAINERS 2.0 GRADUATE PROGRAM

The brainchild of Zain Group Vice-Chairman Bader Al-Kharafi, in September 2015, Zain Group announced the commencement of its elite graduate program called Zainers 2.0, aimed at infusing fresh new talent into the organization at an early stage. Under the Zainers 2.0 initiative, five Kuwaiti graduates from leading universities were selected to spend a year working within Zain Group. 133 applicants applied for the positions, with only 19 candidates selected for interviews, and five ultimately succeeding, all of them having achieved scores above a 3.5 Grade Point Average (GPA) for their university degrees. The graduates were exposed to different tasks in different departments and country operations within Zain Group, and based on their performance over a 12 month period, three were offered an opportunity to assume a full-time role within the organization at the end of the program.

With the successful completion of Zainers 2.0, again with the support of the Bader Al Kharafi, in November 2016, Zain Group revamped the graduate program and launched it under the title: "Generation Z". A one-year incubation program for Kuwaiti Graduates who display high levels of entrepreneurial character and offer a startup mindset, these graduates will commence work in January 2017. The successful five candidates were handpicked following a rigorous assessment process and will be placed on the year-long course, which will test their knowledge, enhance their learning through targeted development, and support them to cultivate their ideas in ways that are customer-centric and relevant.



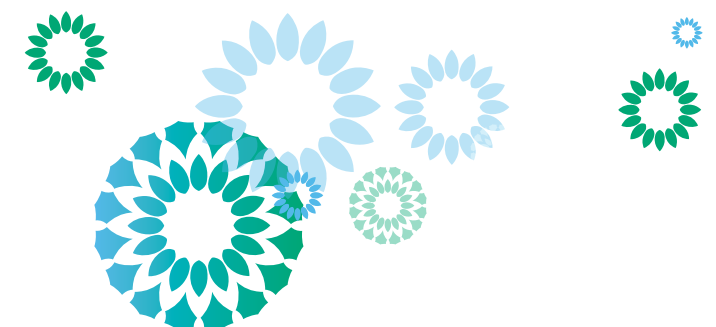
COMPETENCIES

As the competition for talented employees grows region-wide, skills and behavioral competencies have taken on greater importance.

Competencies – the "how" of a job function – frameworks were established and integrated at Zain Group, Zain Kuwait and Zain Saudi Arabia.

Zain Group developed the behavioral competency dictionary, which will be the basis for recruitment, training and performance management. Workshops were held to familiarize employees with this new initiative, which puts the company at a competitive advantage for hiring and retaining the best talent.

Competencies were introduced in Zain Saudi Arabia under their Human Resources Transformation Program. For both Zain Kuwait and Zain Saudi Arabia, competencies will be linked to career progression, performance management, training and talent identification.



TRAINING

We believe that our greatest asset is our people, and equipping them with the latest know-how is paramount to each Zainer's career success.

Zain Saudi Arabia held 147 training sessions throughout 2016, with a total of 68% of the workforce in attendance. Zain Jordan's training courses addressed environmental and human rights issues.

Most of Zain's operating countries now offer an online training platform called Lynda.com. This has made knowledge more accessible and convenient for employees to learn in their own time and pace.

Employees of Zain Jordan and Iraq have received over 400 official certifications. The most popular trainings viewed were leadership and management-skill based.

Zain Kuwait's Leadership Academy was revamped to reinforce an achievement-focused work culture. This module-approach training program incorporates learning and practical action plans. The modules adjust for career progression as well.



TALENT STRATEGY

At the end of May 2016, the talent acquisition personnel from all Zain operations joined together in Kuwait for the Human Resources Talent Acquisition Forum. This two-day event introduced the "The Ultimate Hiring Toolkit", the best-practice concept "Onboarding in a Box", and benefited from the presence of LinkedIn staff who offered online hiring insights. The talent acquisition teams walked away armed with onboarding tips for future Zainers.

To support Zain South Sudan's growth, the talent acquisition team worked tirelessly to recruit new hires in the sales and network divisions. Subsequently, the Zain South Sudan management team was established.

Zain Group featured employee testimonial videos, a new feature on the colorful careers website. Podcasts with various experts discussed recruitment tips, insights on how to interview candidates, and talent availability in the market. Zain Iraq and Zain Jordan's recruitment teams also lent their expertise to podcast sessions.

To enhance new Zainers' onboarding experiences, we've administered surveys to find out how we can improve the overall process, making it a memorable one.



DECISION-MAKING WORKSHOP

Zain senior management completed a decision-making workshop with the world-renowned Professor of Decision Sciences, Enrico Diecidue in Kuwait. The program formed part of Zain's commitment to continuous training for its people to bolster the company's transformation to a digital lifestyle operator and was attended by CEOs, executive management and directors from Zain Group and its eight operations. The main objective of Professor Diecidue's seminar was to help the decision processes of senior executives at Zain Group, focusing on providing a common background in judgment, risk management and uncertainty, and decision making and processes, to support how they reach high-level decisions. The workshop shed light on typical traps in judgment, and exposed executives to effective ways to manage, mitigate, or avoid such incidents.



LINKEDIN AWARD

A proud development during the year was Zain being named the 'Best Employer Brand' at the annual LinkedIn Talent Awards held in Dubai.

Zain joined an elite group of organizations that were identified as being the best employer brands in the region. This recognition comes off the back of our efforts to capitalize on our social media presence, with LinkedIn analyzing the impact, performance and results of nearly 1,000 companies from across the region.

This award is a testament to all of the Human Resources teams across our operations, and this achievement will encourage us to keep attracting and retaining the best talent available.



TECHNO LOGY



NETWORK CUSTOMER EXPERIENCE

STRATEGIC PILLARS

Customer Experience



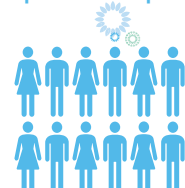
Operational Effectiveness



Business Growth



People Development



We have continued to have explosive data consumption across all Zain operations as we increase our coverage of 3G and 4G networks. As more customers acquire smartphones and mobile devices, they demand for a faster, more reliable, high-speed, low-latency network for an enjoyable experience.

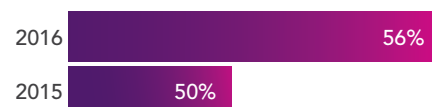
Consequently, focus on customer experience and service quality management for data services and applications has been a strategic goal for us as we aim to continuously improve the quality of experience throughout all our networks.

In addition to the network performance indicators, we launched a frequent Network Insights dashboard that aims at providing better understanding of the data usage patterns and behaviors across Zain to better facilitate decision-making for investing in the right areas and services. This has helped us identify patterns that are driving data growth across our markets such as high-definition on-demand video, social media patterns and devices that have the highest consumption.

4G COVERAGE

Increasing LTE coverage is a strategic direction for us as it drives data usage. Therefore we continued the rollout of 4G across our markets with the deployment of new sites and the launch of a LTE network in Sudan in March 2016. This has increased the 4G population coverage to 56% across Zain footprint (excluding touch Lebanon) and to 92% within markets that have deployed LTE. However, there is still plenty of potential.

4G Coverage across all Zain Footprint



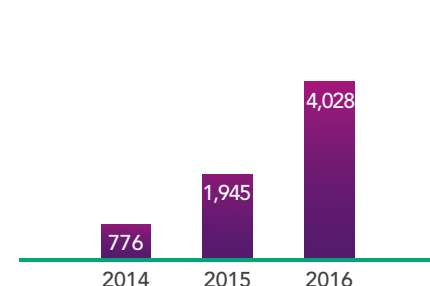
4G Coverage across all Zain LTE Markets



DATA USAGE

The average data usage per day grew by 100% across all of Zain in 2016. Customers downloaded and uploaded up to 4 petabytes a day. This growth is mainly driven by high speed 3G and 4G networks as seen for example in Iraq after the launch of 3G, data volume has grown by over 300% in just one year. 75% of our data traffic is carried on 4G networks indicating room for improvement.

Daily Data Volume (Terabytes)



4G CUSTOMERS

Our 4G customer base grew by 85% from 1.6m to 2.9m customers, with significant growth seen in Zain Saudi Arabia. We expect significant additional growth as we continue to migrate more customers to 4G networks, rollout more 4G sites, push smartphones and high-data usage devices, and enable LTE roaming.

4G Customers (m) across Zain



BIG DATA AND ANALYTICS

STRATEGIC PILLARS

Customer Experience



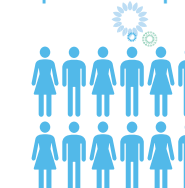
Operational Effectiveness



Business Growth



People Development



Big data is high-volume, high-velocity, and high-variety information assets that demand cost-effective, innovative ways of information processing to enable enhanced customer insight, decision making, and process automation.

Zain Group is taking ownership of managing its transformation program, rolling out the Big Data technology across all operating countries.

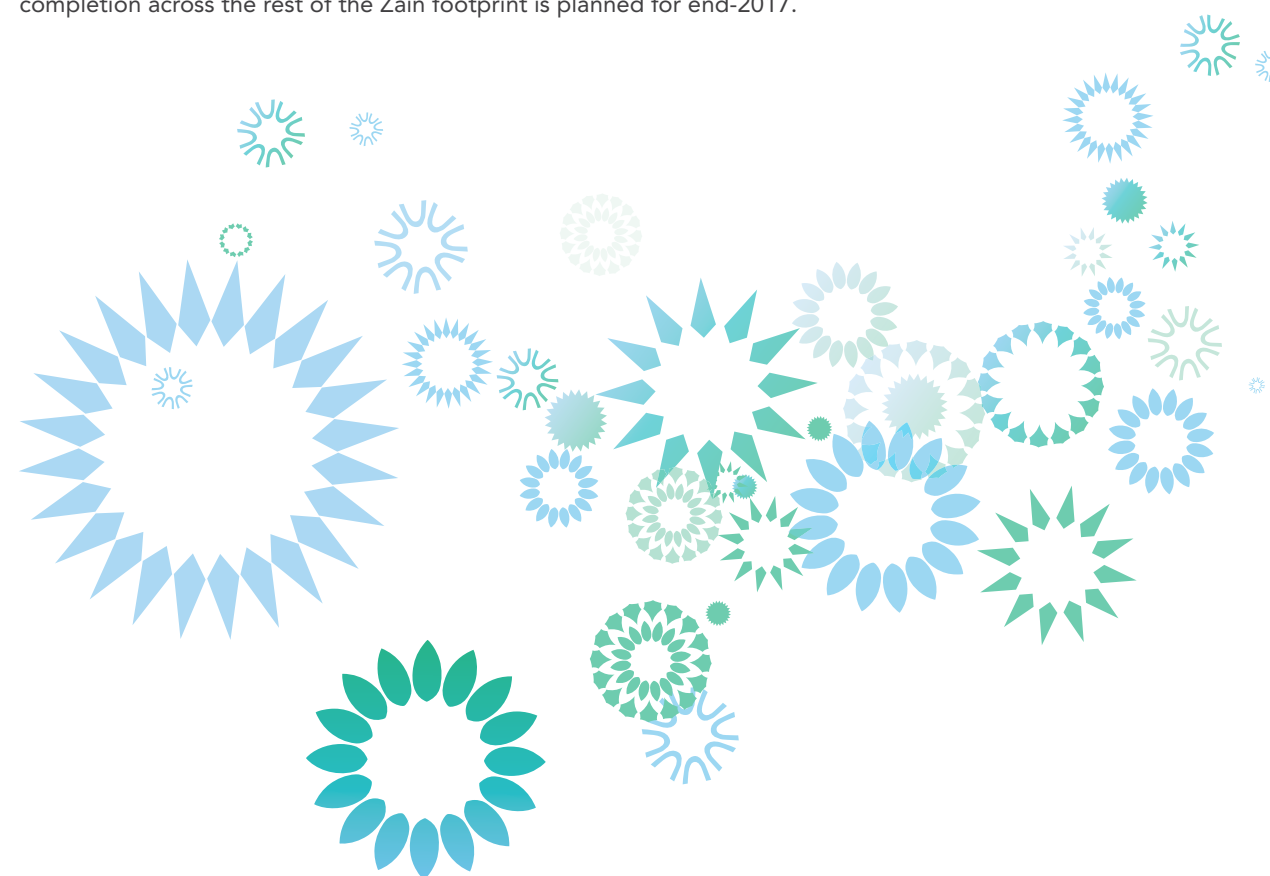
The project objectives are as follows:

- Improve time to market
- Enhance customer experience
- Enrich data monetization
- Enable a platform for Zain digital and innovation initiatives

The chosen approach starts with a few use-cases aimed at reducing the Capex/Opex, which falls under the operational effectiveness strategic pillar. This will be achieved by using commodity storage and high-capacity; high-performance servers and offloading data from existing infrastructure to a Big Data platform.

The next phase of the Big Data roadmap for Zain will focus on use-cases aligned with digital innovation and Internet of Things revolution, looking to expand data management, analyze internal and external, structured and unstructured data; create new business models and drive innovation.

The Big Data rollout started in 2016 in Iraq, Sudan, and Saudi Arabia; and is expected to go live by end-June 2017, while completion across the rest of the Zain footprint is planned for end-2017.



ENERGY AND SITE OPTIMIZATION

STRATEGIC PILLARS

Customer Experience



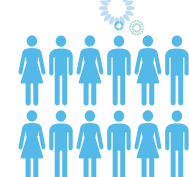
Operational Effectiveness



Business Growth



People Development



In 2016, Zain focused on three main initiatives that have a direct impact on the environment and are linked to the operation of our base stations.

SITE SHARING: Aiming to provide better services to our customers, Zain partnered with competitor network operators to share the same infrastructure for new sites whenever feasible, in order to reduce the number of physical sites that need to be deployed.

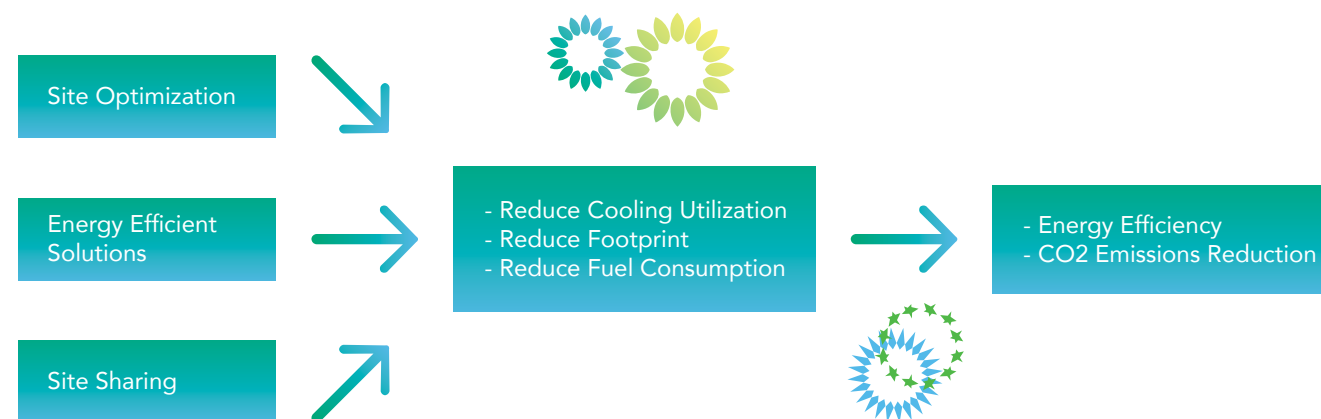
SITE OPTIMIZATION: Air-conditioning represents 35 – 45% of the total energy usage on standard base stations mainly due to the fact that the telecom equipment premises, known as shelters, have relatively large dimensions. In 2016, Zain focused on the deployment of outdoor solutions as a replacement to shelters. Due to their minimized footprint and lower energy requirements, these cabinets have been identified as one of best ways for Zain to reduce its environmental impact. In the cases that outdoor cabinets cannot be used, Zain has moved to smaller sized shelters that have better energy efficiency than larger ones.

ENERGY EFFICIENCY: In 2016, Zain undertook a complete re-evaluation of the base station power system building blocks, and the following activities were performed:

- Deployment of high temperature batteries that helped us raise efficiency by increasing the operating temperature inside base station shelters.
- Utilization of free cooling systems that use ambient temperature to cool shelters when feasible.
- Deployment of monitoring solutions coupled with power hybrid solutions to rely on stored energy and reduce the need for conventional power solutions like diesel generators or commercial power.
- Deployment of high efficiency power converters and smaller size diesel generators for better energy efficiency.

The above initiatives resulted in CO2 emission reduction, the details of which can be found in our Corporate Sustainability and Social Responsibility report.

Zain's path to Energy Efficiency & CO2 emissions reduction



ZAIN TECHNOLOGY CONFERENCE 2016

We held our sixth annual Zain Technology Conference (ZTC) in Amman, Jordan under the patronage of His Excellency the Prime Minister of Jordan, Dr. Hani Al-Mulki. The conference was inaugurated by Her Excellency, Jordan's Minister of Information and Communication Technology, and Minister of Public Sector Development, Mrs. Majd Shweikeh.

The theme of ZTC 2016 was 'Moving Forward', and focused on Zain's strategy execution as it continues to transform into a digital lifestyle provider of the highest caliber, investing extensively in network and technology upgrades to ensure its individual and enterprise customers receive the best and simplest digital mobile experience.

The event saw the attendance of over 700 telecom professionals made up of Zain technology, commercial and product teams personnel from across its eight operations as well as representatives from 60 of the world's leading technology solution providers.

ZTC 2016 comprised seven streams, which extended to Smart Networks; Core Evolution; BSS and OSS; Digital Future; IT Evolution; Quality of Experience; Service Innovation; and Energy Efficiency and Site Optimization.

The opening session also saw keynote presentations made by Zain's primary technology partners, Ericsson, Huawei, and Nokia, each of which showcased their strategic technology offerings in support of Zain's digital transformation aspirations. In addition, renowned consulting firms Detecon and Strategy made presentations focusing on the experiences of global operators in their digital transformation journey.

The keynote address presented by Fadi Ghandour, the Co-Founder of courier company Aramex and Executive Chairman of WAMDA Capital was well received and set the tone for the rest of the conference.

A live stream of the opening panels and exhibitor demos of the event was provided to 7,000 staff across all Zain Group country operations. The conference was also comprehensively covered live on Zain's social media channels covering many aspects of the event.

Jordan was an appropriate backdrop in which to host ZTC 2016, given the emphasis on innovation that is driven from the Zain operation in the country, notably the Zain Innovation Campus (ZINC), and from which digital ideas are being injected into the Group in order to deliver unique digital mobile experiences for our customers.

Zain Jordan is also synonymous for championing youth development and college students and their professors from the Kingdom were invited to attend ZTC keynotes, breakout sessions and technology demos and exhibitions by the partners. In addition Ericsson, Huawei and Nokia showcased their latest digital technologies during the conference for university students at ZINC.



COMMERCIAL



Listening to customer feedback and improving service delivery are critical to supporting Zain's vision to become an integrated digital lifestyle provider. Accordingly, the company has spent a great deal of time seeking insights on how we can be closer to customers and play a bigger role in their day-to-day lives.

Personalized interactions with its customer base, allow Zain to best leverage its asset and rise beyond the role of providing traditional communications services to offer a platform where customers can grow, enjoy and share.

Increased smartphone penetration, convergence, and data consumption continue to be trends driving today's telecom industry. Zain's investments in the latest networks and technologies have continued to help meet these challenges, enabling all operations to introduce appealing data-monetization program with a view to increasing data revenues.

The company is focusing on delivering high-speed data connectivity and customer experiences from which all customers can benefit. This covers the entire spectrum of data experiences - from 'walk-out surfing' in retail store to offering integrated value bundles that increase rewards based on commitment levels.

BRANDING & ADVERTISING

THE IMPORTANCE OF OUR BRAND

The Zain brand is at the heart of everything we do. It is a promise to our customers; it defines our vision and drives our focus within the company. Our brand is one of our most important assets having been independently valued at over USD 1 Billion.

AWARDS

Since its introduction in 2007, the Zain brand has been identified across the MENA region as the best telecom brand on numerous occasions by various renowned regional organizations, and during 2016 this continued.

In September, the brand was recognized as the 'Best Brand for Telecom in 2016' at the Telecoms World Middle East Awards. In December, Zain won the 'Best Brand for Telecom in the Middle East for 2016' prize at the Telecom Review Summit Awards. Both these accolades recognized the outstanding performance of Zain's brand across its markets, which has come to represent the highest standard of customer engagement across touch points.

Additionally, Zain Group was named the 'Best Employer Brand' at the annual LinkedIn Talent Awards, joining an elite group of organizations identified as being among the best employer brands in the region that utilize LinkedIn Talent Solutions to find, hire and retain top talent.



SOCIAL MEDIA

Zain invests heavily in its brand and services on all media channels contributing to increasing the loyalty amongst customers in addition to attracting new customers. As we move towards a digital world, it is particularly pleasing to see that we were recognized by Google as having three of the top 10 Most Popular Ads on YouTube in the MENA region during August 2016.

Zain's Eid television commercial – "Let's Sing" was ranked number one with its singing, dancing and a colorful setting capturing the hearts and minds of over 17 million admirers who viewed it. Second on the list in August was Zain's Ramadan Theater Show commercial showcasing a jungle filled with waterfalls and singing animals, that has received nearly 6 million views to date. Sixth on the list for August was the Zain Ramadan musical commercial that featured a fairytale quality with wishes of peace and a sense of community bringing people together. It has attracted over 11 million views to date.



By the end of December 31, 2016, Zain Group and its local operations boast more than 8.2 million fans on Facebook (17% annual increase), more than 5.2 million followers on Twitter (92% annual increase), and 1 million on Instagram (105% annual increase). During 2016, Zain Group and operations' YouTube channels have had a remarkable 101.8 million views, predominantly due to the success of various Ramadan campaigns and product service launches. In addition, Zain Group also saw an increase in followers with LinkedIn reaching to a total of 89K (30% annual increase).



**MORE THAN
8.2 MILLION FANS**
A 17% ANNUAL INCREASE



**MORE THAN
5.2 MILLION
FOLLOWERS**
92% ANNUAL INCREASE



**1 MILLION
FOLLOWERS**
105% ANNUAL INCREASE



**101.8
MILLION
VIEWS**



89K FOLLOWERS
30% ANNUAL INCREASE

Also during the year, Zain Group and operations launched and focused on their respective Snapchat channels, one of the most popular and fastest growing mobile apps. With steadily increasing viewership, Snapchat proves to be popular for customers, employees and fans.

OUR VISION

Our vision is to become the leading provider of innovation and digital lifestyle services by giving the best and simplest experiences to our customers. We are passionate about customer experience, operational effectiveness, business growth and the development of our people everywhere.

We are transforming and moving from a mobile service provider to become an integrated telecommunications provider, offering our customers' mobile services, internet connectivity, mobile financial solutions, entertainment and gaming. We are adopting this strategy based on our research of customer needs, and we strongly believe that as we deliver on it our customers will continue to value their relationship with Zain.

DATA PROVIDER OF CHOICE

Our data strategy continues to focus on providing the best data experience. Focusing on our customers, we have continued to invest in our network coverage, capacity and reliability to meet these increasing demands. We offer our customers products designed to deliver on their needs in a convenient manner. As a result, the total data traffic across our markets increased by 107%.



**107%
DATA TRAFFIC
INCREASE**

We are witnessing a number of drivers of data growth across our markets. Increased smartphone penetration coupled with larger screen sizes providing a richer experience, higher demand for video services, substitution of fixed data services, and an ever increasing number of social and over-the-top apps on the mobile.

VALUE MANAGEMENT

At Zain, our market approach is to offer much more value for money where we reward customers for their commitment, and offer relevant choices. Simplicity is a core element of our value proposition.

We continuously enrich our portfolio using smart pricing strategies through the introduction of integrated bundles that combine voice, SMS and most importantly data services.

We are investing in capabilities to micro-segment our offers with the goal of increasing our customer retention, and upselling services based on customer requirements. Our aim is to provide customers with timely and personalized offers through employing real-time triggering.

B2B

B2B is one of our growth levers, and we are successfully securing the market opportunities in our operations. We employ a segmented approach to the Enterprise market targeting a wide range from the Home/Small Office Segment to Large Enterprises and Government Institutions. We offer each segment a differentiated portfolio and service strategy, delivered by dedicated B2B business units within Zain operations.

Mobility has always been at the heart of Zain's business, yet we also see significant opportunities in the fixed, M2M and Hosted Services spaces. We are developing the marketing, sales and service competencies in our operations to strengthen our presence in these areas. We are and aim to continue to be the operator of choice for companies of all sizes in the Middle East.



CUSTOMER EXPERIENCE: ENGAGING OUR CUSTOMERS FOR A LIFETIME RELATIONSHIP

At Zain Group, a key part of our brand is delivering a superior customer experience. We understand that engaged customers remain with us longer, and tend to use more of our services. Therefore, we focus on delivering a superior customer experience, and in doing so we drive loyalty and create brand advocacy. This is key to continuing to attract new customers and to protecting our existing base.

We are listening to the voice of customers and continuously enhancing our products and services to meet their needs and increase their satisfaction.

In 2016, we completed the rollout of the Customer Feedback tool in all our markets, and we have expanded monitored customer touchpoints to include Digital Channels, B2B and Network interactions.

We gathered feedback from more than 2 million customers directly after they interacted with one of our touch points. We analyzed this valuable feedback to increase our understanding of customer needs and perceptions. Using this information we gathered, we created a robust process to respond to our customers. As a result have implemented changes to our offers, processes and policies, generating improved customer satisfaction and transactional Net Promotor Scores.



WE ARE INNOVATING IN SERVICE...

- Zain Bahrain launched their e-shop channel, where customers can enjoy great features such as number selection and port-in, as well as purchasing new services. Customers can buy exclusive features and products with two working days for delivery.
- Zain Bahrain also launched an innovative Customer Visit Management System, which books retail store appointments online, avoiding queues and allowing more efficient processing of requests. The system also identifies members of VIP Signature, Zain's exclusive premium level club, giving them prioritized service through a dedicated service agent at select branches.
- Touch Lebanon launched the new SMART IVR (Interactive Voice Response service). SMART IVR is a digital channel that provides self-service via a simple and user friendly SMART menu that guides customers to the most appropriate options based on their profiles, line status and potential requests. The self-service menu on the other hand allows customers to manage their accounts securely, without any human interaction, offering a consistent experience to that of the mobile app and website.



- We are innovating with a Voice **Biometrics** pilot in Lebanon in line with touch's digital transformation strategy (first in the Middle East to launch such an initiative). Voice Biometrics is a platform on which customers can be authenticated by simply using their voice as a password. The objective is to provide touch customers with an easy and secure way to access their personal account information by simply using their voice.

- Zain Jordan launched the Share Location Service that allows customers who need support on coverage to share their location details with Zain. This data is captured by the network and is utilized to expedite problem resolution, leveraging Zain technology to increase customer satisfaction through effort elimination, reduced complaints and faster resolution.

WE ARE ENGAGING WITH OUR CUSTOMERS...

- Customer Day continues to be a feature in all our markets. Each quarter our Management teams across the Group meet customers in retail shops, or answer customer service calls in our contact centers. This initiative has proven highly successful in keeping our management aware of customers' need. The feedback that is gathered directly from customers enhances our plans to improve our products and services to meet the highest level of customer satisfaction.



- Zain operating companies also engage with customers on different occasions including:

Customer Health week in Jordan where in cooperation with the Bio Lab team, Zain offered shop visitors free health checks. This activity was highly successful and generated positive feedback from customers.



- Our Operating companies organized appreciation activities where we delighted customers with unexpected entertainment and prizes when they visited our retail shops.

WE ARE BEING RECOGNIZED...

2016 AWARDS

- Zain Bahrain wins Middle East Call Center 'Best Voice-of-Customer Program' award at the Middle East Call Center ("MECC") 2016 Conference in Dubai.
- Zain Saudi Arabia wins 'Best CX' at Telecom World Middle East.
- touch wins the Teknotel award for the 'Best Customer Service offered by a Telecom Operator' in the Middle East.

WE ARE RECOGNIZING OUR TEAMS FOR THEIR SERVICE...

We share feedback we receive from our customers with our customer interfacing employees. In this way we are able to recognize our best members and improve our training.

Zain Saudi Arabia rewards high performers from our retail shops and contact centers based on customer evaluation of their interactions with them.



CORPORATE SUSTAINABILITY

2016 was a year that continued to be marked by conflict in the region with Iraq, Syria and Yemen contributing to the further displacement of people across the Middle East. As such, conditions on the ground led us to reaffirm even more resolutely our commitment to addressing the plight of those less fortunate. The Group, in its desire to find solutions for those who are affected by conflict, launched the 'Innovate for Refugees' competition in partnership with MITEF in the hope that we could catalyze tech driven solutions for challenges faced by refugees. The initiative saw over 1,600 applicants and six finalists receive prizes of USD 20,000 each to further their projects.

Continuing in the same vein and leveraging our core business, Zain embarked on a multi stakeholder collaboration with UNHCR and Facebook to provide free Wi-Fi access to refugees and those living in surrounding communities in Jordan. Phase 1 of the project included four pre-approved locations in the Kingdom of Jordan. Through the initiative more than 16,000 people were positively impacted as they could freely access the internet, further their development

through access to educational content that is readily available online, as well as benefit from live educational sessions conducted by the UNHCR personnel located at these centers.

Throughout the year, the Group doubled its efforts and took a decisive stand to ensure that children across our markets of operation were protected from abuse while having access to vital counseling. By means of its partnership with Child Helpline International, Zain was instrumental in assisting and coordinating the establishment of toll free child help lines. Kuwait, Jordan, Saudi Arabia and Sudan saw the successful implementation of the project, in situations where we were able to leverage the skills of our call center agents to re-skill counsellors. Kuwait officially launched the "147" short code in cooperation with the Ministry of Health, the Kuwait National Child Protection Program.

During the year, Zain maintained its leadership position in pushing the sustainability agenda by launching the Sustainable Development Goals (SDGs) social media campaign across all its markets. The Group believes that it is our moral duty to play an active advocate role in regards to the SDGs as they represent a sustainable and inclusive future for all.

Below you will find a snapshot of some of the activities across our markets during 2016. For a comprehensive view, we invite our readers to visit our Sustainability Report on:

<http://www.zain.com/en/social-responsibility/sustainability-reports/>

KUWAIT

EMPOWERING UNDERPRIVILEGED CHILDREN WITH EDUCATION

Donation to Red Crescent Society

This year, Zain Kuwait announced the donation of USD 100,000 for a campaign that supports the education of underprivileged children in Kuwait as part of its ongoing strategic humanitarian partnership with Kuwait Red Crescent Society (KRCS). Through the donation, Zain Kuwait will be honored as a Humanitarian Strategic Partner.

Zain's donation came as part of its extended partnership with KRCS, which aims to complement Zain's contributions in various humanitarian and charitable efforts and initiatives by providing additional support and relief to those in need in collaboration with various other organizations. The donation will help further inclusion in Kuwait's education sector and will help strengthen overall educational standards in the country.

COLLABORATING TO PROVIDE AID

UN Donation Portal - #ZainWithRefugees

The #ZainWithRefugees Campaign is a joint initiative between UNHCR and Zain Kuwait that aims at assisting and supporting Syrian refugees who are facing a harsh winter. The UNHCR donation portal campaign aims to collect contributions to raise awareness on refugee emergencies. The portal includes a social media aspect where Zain raises awareness about the plight of Syrian refugees through its social media channels, as well as a bulk SMS campaign through which all of Zain's customers receive information about the issue.



BAHRAIN

EMPOWERING BAHRAINI ENTREPRENEURS

Startup Workshop – Social Entrepreneurship

Zain Bahrain held a workshop for entrepreneurs to learn more about the notion of social entrepreneurship. Social entrepreneurship is a concept where startups develop innovative solutions to socio-economic or environmental challenges, meaning their motivation is not inspired purely by profit as a traditional startup might be. A total of 25 participants took part in the workshop, which represents an active approach by Zain Bahrain to push the envelope in the area of entrepreneurship.



INTEGRATING ICT CAPABILITIES FOR THE YOUTH

Youth City ICT Jobs Workshop

Zain Bahrain held a workshop for high school students aimed at educating them about potential jobs in the ICT sector. The capacity-building workshop targeted job readiness in telecom related fields, helping young students identify potential career paths at an early age. 80 high school students took part in the workshop. Through it, local youth will be able to address the skills gap that currently exists in Bahrain.



IRAQ

PROVIDING EDUCATION FOR DISPLACED CHILDREN

Child Friendly Spaces

Since 2015, Zain Iraq has worked alongside UNICEF through the Child Friendly Spaces (CFS) supporting the educational needs of displaced children in the country, as it is difficult for displaced children to gain access to educational facilities. CFS' goal is to provide opportunities for children to learn and develop in a safe and secure environment. CFS consist of enclosed spaces for children comprising of playgrounds and areas designated for learning. The children that attend CFS are aged between 4 and 16 and are provided care, education, health awareness and psychological support for five days in the week. This year, more than 2,000 families benefitted from the use of the CFS initiative.



SUPPORTING JOB CREATION

Sewing Training for internally displaced (IDP) Widows

The establishment of a training program for internally displaced (IDP) widows is one of Zain Iraq's most significant efforts to promote socio-economic inclusion for those most marginalized during the year. This program is an ongoing initiative that aims to provide a better life for vulnerable women as they face harsh circumstances, including being responsible for providing to their dependents. Through the program, widows are trained in sewing, which improves their job readiness and capacity to find gainful employment. In 2016, 61 widows attended sewing courses. The program, launched in collaboration with Bothoor Alkhaer Organization for Relief and Development in the Diyala Province, an important step in helping Iraq's most vulnerable to gain the skills that will enable them to improve their socio-economic circumstances.

JORDAN

DEVELOPING SKILLS FOR JOB PREPAREDNESS

Mobile Maintenance Training Centers

Zain established its first Mobile Maintenance Training Centers in 2008 with the aim of developing the capacity of socio-economically marginalized Jordanians. Through the centers, people could develop the skills necessary to repair and restore mobile phones, improving their prospects for gainful employment. To date, centers have been established in Al Zarqa, Al Tafilah, and two more are currently under development in Karak and Irbid – training a total of 586 people.

SUPPORTING CHILDREN IN NEED

Mobile Clinic for Children

Zain Jordan's Mobile Clinic for Children provides children in remote, rural areas with essential health services. This initiative was launched in 2002 and it continues to serve children in need. In Jordan, 35% of the population is aged between ages 0-14 years, representing a large segment of the overall population needing care and support. The project targets this segment and helps children and their families cope with health related issues. Zain Jordan's Mobile Clinic comes fully equipped with a qualified medical team that provides free medical and dental treatment and medication for all children under the age of 16. The Zain Mobile Clinic for Children has successfully provided access to medical care and treatment to those in need since its introduction, treating more than 187,000 children in the country to date.



SAUDI ARABIA

RESPONDING TO LOCAL NEEDS

Zain Academy

In 2016, Zain KSA developed the Zain Academy, aimed at promoting capacity-building and job readiness amongst Saudi youth. The program was established in response to the government's localization drive, which aims to have 100% localization in the telecom sector by the end of the year, with similar targets set for other sectors of the economy.



LEBANON

PROMOTING INCLUSION

Ramadan CS Campaign across Social Media Channels

During Ramadan 2016, touch introduced a social media campaign that involved the general public voting on which local educational NGO to support. Touch granted the NGO with the highest number of votes, a prize of USD 10,000 and launched a long-term partnership with the organization.

The winner of the campaign was S-miles, an inclusive center that offers personalized programs and therapies for individuals between the ages of 3 and 25, who have mild to moderate special needs, learning difficulties, amongst other difficulties.

S-miles center offers early detection and intervention to nurseries, academic programs, extra-curricular activities and individualized therapies.

The campaign reached a total of 641,000 people, with 140,000 individuals participating in the survey.



BRIDGING THE GAP BETWEEN DIFFERENT SEGMENTS

touch and Youth Energy for Development (YED) joint project

Touch and the Youth Energy for Development (YED) collaborated to develop a website that connects employers in less urbanized parts of Lebanon with young people who do not possess college degrees. The service emphasizes users on job training, certificates, and soft skills in an effort to promote inclusion in Lebanon's economy.

To complement the digital side of connecting employers and employees, YED will host an annual job fair and workshop to bring employers and employees together, educating potential employees on best practices for obtaining and holding a position and educating potential employers on the benefits of hiring youth and helping them with their transition to the workplace.

The main goal of the partnership is to decrease youth unemployment in Lebanon by connecting prospective employers with marginalized youth.

SUDAN

ADDRESSING UNEMPLOYMENT

Business Acceleration Program

Zain Sudan sponsored the country's first business accelerator program in an effort to promote a more startup-friendly and innovative ecosystem in the country. Through the initiative, aspiring entrepreneurs can access many of the tools and guidance necessary to pursue their ambitions. In Sudan, the unemployment rate is 20%, and by having such programs, Zain Sudan addresses this deficit while simultaneously stimulating future entrepreneurs to provide an opportunity to seek employment and improve their livelihood. Around 720 entrepreneurs participated in this year's program.

PROVIDING STUDENTS WITH MEANINGFUL RESOURCES

Back to School Program

The Back to School project, launched in 2006, provides students across the country with essential school supplies that improve their educational experience. The program targets students in low-income areas, orphans, or those suffering from HIV. During the course of the year, Zain Sudan was successful in distributing essential school supplies to more than 30,000 students. Over 210,000 students across Sudan have received school supplies since the establishment of the program.



SOUTH SUDAN

PROVIDING SKILLS AND KNOWLEDGE TO STRENGTHEN RESILIENCE

The Whitaker Peace and Development Initiative

For the third year in a row, The Whitaker Peace and Development Initiative (WPDI), established in 2012, promotes peacebuilding, reconciliation and capacity-building. The program is a collaborative effort between Zain South Sudan, Ericsson, UNESCO, and Forest Whitaker, the renowned actor and UNESCO Goodwill Ambassador for Peace and Reconciliation.

In a society mired by internal conflict, programs such as the WPDI offer a pathway towards reaching a sustainable solution. By involving youth from around the country, the WPDI supports education and interaction for the goal of promoting peace and development in South Sudan. The Trainers of Trainers (ToTs) form the first, highest-level tier under WPDI's approach. WPDI helps these youth build their knowledge and skills in peacebuilding, mediation, reconciliation, ICT, and business. The ToTs are then sent to their communities to train an additional cohort of youth (payam youth) on behalf of WPDI, giving the program a multiplier effect in the number of individuals these positive lessons reach.

In 2016, the TOTs, together with the WPDI local staff in South Sudan, recruited 154 youth from 77 payams across the 10 counties of Eastern Equatoria. These young people are receiving extensive training from the ToTs, who receive oversight and support from WPDI staff to ensure quality assurance in the process. The ToTs, with support from WPDI, conducted four series of trainings for the payam youth. The idea behind these trainings is for the ToTs to replicate the knowledge and skills they have acquired from WPDI so that the payam youth are skilled enough to undertake activities at the same level and quality as the ToTs.

In addition, the Peace Road initiative was started by WPDI in 2015 and is now nearing completion. The program cuts through from Budi County to Kapoeta East County, where conflict has always been the order of the day, with disastrous consequences in the form of loss of life. Each side claims the road as its own and therefore denied the other side access, often resulting in deadly competition. WPDI supported the rehabilitation of the road by youth from both sides to give them a sense of joint ownership and eliminate the exclusive claim by each side. The initiative has contributed to the fostering of peaceful exchanges and the two communities have begun utilizing the road, gaining access to services and markets for their goods, notably cattle.

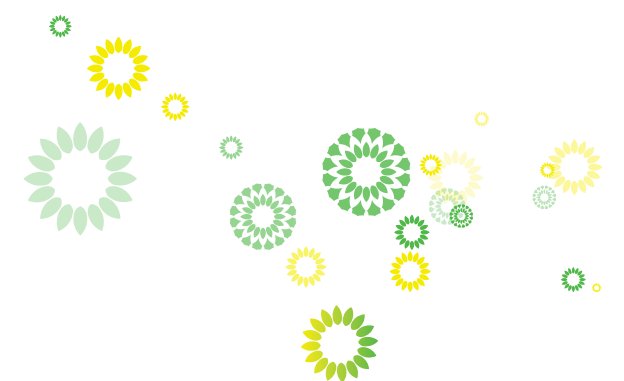


EMPOWERMENT THROUGH CONNECTIVITY

Zain Huawei Connectivity Project

In 2014, Zain South Sudan partnered with Huawei to establish a program that provides connectivity to schoolchildren in South Sudan. The ongoing project utilizes the energy from Zain's base stations, diverting it to nearby schools where it powers computer stations that continue to serve around 3,000 children.

Connectivity is a key enabler for socio-economic development and an essential driver of the knowledge economy. By leveraging Zain's core business, the Zain Huawei Connectivity Project is offering connectivity on a sustainable basis. This is particularly relevant given that only 17% of the population have access to the internet at present.



ANNUAL CORPORATE GOVERNANCE REPORT



INTRODUCTION

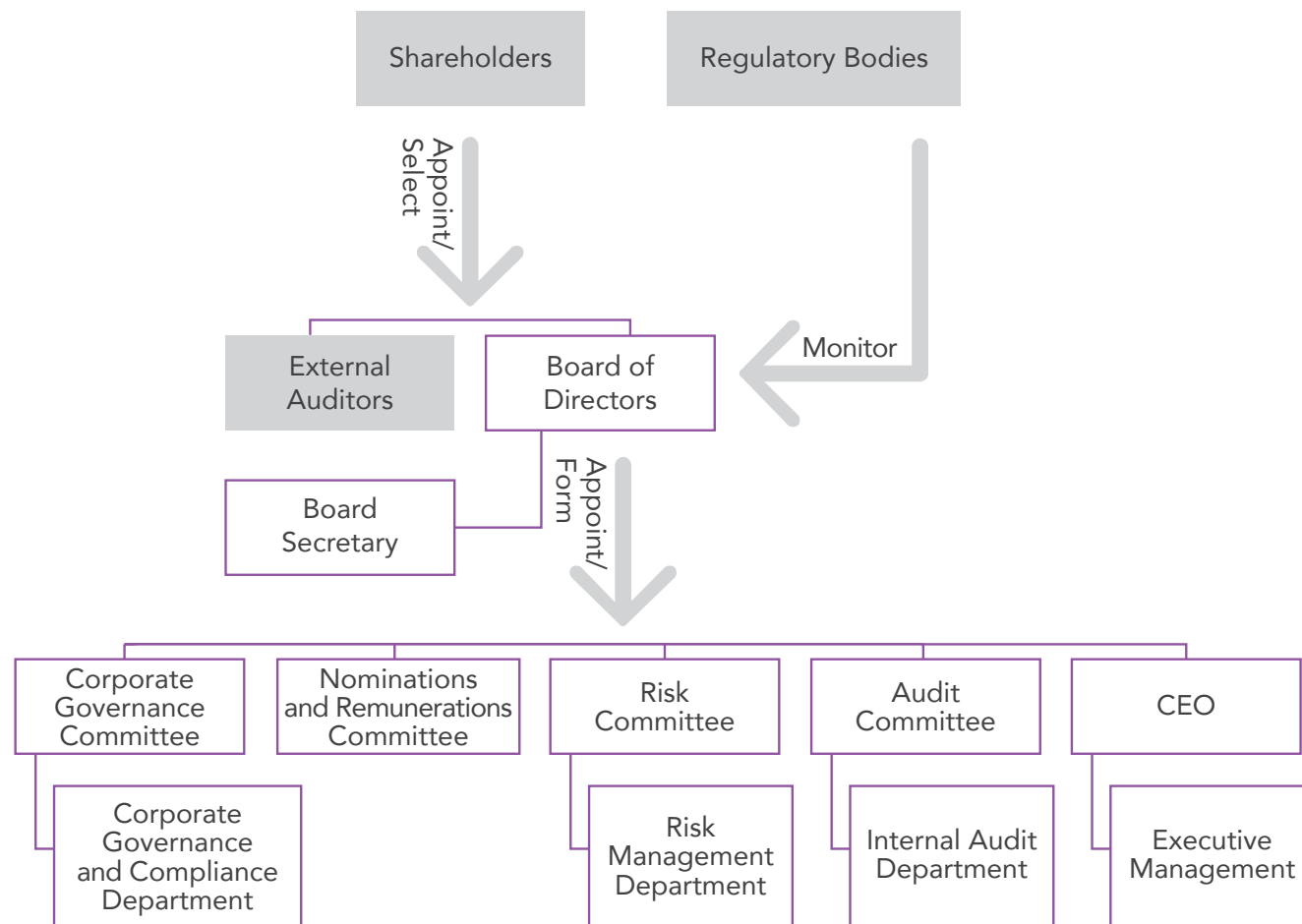
The Mobile Telecommunications Company (Zain) is committed to the highest levels of excellence in compliance with the laws and regulations and in accordance with the leading practices in governance. The company introduced a corporate governance department as a second-line defense to enhance compliance. This department is in charge of reviewing and evaluating the efficiency and effectiveness of the corporate governance framework within the company as well as compliance with laws and regulations.

In light of the changes in the regulatory environment and the related rules and regulations, the corporate governance and compliance team at Zain is always working to support the regulatory environment remain current with regulatory developments within and outside the company. The team also ensures that the company operates in line with the applicable laws and regulations and conforms to technical requirements.

The corporate governance and compliance department works closely with the Board Corporate Governance Committee to design an efficient corporate governance and compliance framework. It also ensures proper implementation is in place for the policies and charters within the framework. In addition, the team assures the quality of operations are in line with designated corporate governance principles to ensure performance efficiency and to achieve outstanding levels of transparency through accurate and timely disclosure. The purpose of implementing the corporate governance framework is to protect the rights of all shareholders and stakeholders and to ensure compliance with applicable laws and regulations.

The function is also responsible for raising awareness of corporate governance practices and regulatory requirements among employees, executive management, and the Board of Directors.

CORPORATE GOVERNANCE FRAMEWORK



RULE I: CONSTRUCT A BALANCED BOARD COMPOSITION

BOARD COMPOSITION

NAME	CLASSIFICATION (EXECUTIVE, NON-EXECUTIVE, INDEPENDENT, SECRETARY)	QUALIFICATIONS	DATE OF FIRST ELECTION/ APPOINTMENT
Asaad Ahmed Al Banwan (Chairman)	Non-executive	Bachelor's degree in Finance and Management	17/3/1999
Bader Nasser Al Kharafi (Vice Chairman)	Non-executive	Master of Business Administration	12/4/2011
Shaikha Khaled Al Bahar	Non-executive	Bachelor's degree in International Marketing and Statistics	12/4/2011
Waleed Abdullah Al Roudan	Non-executive	Bachelor's degree in Economics	14/4/2011
Abdulmohsen Ibrahim Al Fares	Non-executive	Bachelor's degree in Mechanical Engineering	17/3/1999
Abdulaziz Yaqoub Al Nafisi	Non-executive	Bachelor's degree in Economics	31/3/2005
Jamal Ahmed Al Kandary	Non-executive	Bachelor's Degree in Law	27/3/2002
Jamal Shaker Al Kazemi	Independent	Diploma of Commerce	12/4/2011
Hatmal Farouq Al Qadi	Secretary	Master of Laws (L.L.M.)	12/5/2015

BOARD MEETINGS DURING 2016

• The symbol (✓) indicates that the Board Member has attended the meeting

NAME	MEETING (1) 10/2/2016	MEETING (2) 17/2/2016	MEETING (3) 24/4/2016	MEETING (4) 22/5/2016	MEETING (5) 28/7/2016	MEETING (6) 3/10/2016	MEETING (7) 18/10/2016	MEETING (8) 21/11/2016	NUMBER OF MEETINGS
Asaad Ahmed Al Banwan (Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	8
Bader Nasser Al Kharafi (Vice Chairman)	✓	✓	✓	✓	✓	✓	✓	✓	8
Shaikha Khaled Al Bahar	✓	✓	✓	✓	✓	✓		✓	7
Waleed Abdullah Al Roudan		✓	✓	✓	✓	✓	✓	✓	7
Abdulmohsen Ibrahim Al Fares	✓	✓	✓	✓	✓	✓	✓	✓	8
Abdulaziz Yaqoub Al Nafisi	✓		✓		✓	✓	✓	✓	6
Jamal Ahmed Al Kandary	✓	✓	✓		✓	✓	✓	✓	7
Jamal Shaker Al Kazemi (Independent)	✓	✓	✓		✓	✓	✓		6

RUNNING BOARD MEETINGS

The Board Secretary has the required qualifications that help him complete the tasks and responsibilities entrusted to him by the Board of Directors. He carries out procedures for reporting in-line with the Corporate Governance regulations issued by the Capital Markets Authority (CMA) and other rules and regulations by authorities in Kuwait. One of the main responsibilities of the Board Secretary is to manage Board meetings and prepare and save the accurate minutes to present to the Chairman and the members concerned for approval.

The Board Secretary assists the Chairman on all matters related to the Board, including providing meeting agendas, confirming the date and location of meetings, circulating invitations to Board Members, and providing supporting documentation by a certain deadline, which has been approved within the internal policies and charters of the company.

The Board Secretary ensures that high quality information is presented to the Board and its committees; he keeps a record of all Board discussions, recommendations, resolutions, results of voting conducted during the Board meetings and acts as the custodian of Board documents. Moreover, the secretary ensures meeting all legal and regulatory requirements.

RULE II: ESTABLISH APPROPRIATE ROLES AND RESPONSIBILITIES

THE ROLE OF THE BOARD

The company's memorandum and articles of association govern the process for Board election and appointment; accordingly, the Board of Directors demonstrates a mix of knowledge, expertise, and leadership skills through its vision, principles, values, and strategy. In addition, the Board is responsible for monitoring the performance of the executive management to maximize shareholder value.

The Board sets the corporate governance framework and its implementation mechanism. The supervision of the executive management by the Board is essential to protect shareholder rights. Moreover, the Board works on creating long-term benefits for stakeholders in an ethical, lawful, and responsible manner. Consequently, the role of the Board has been identified and described in details within the Board charter and the Board Committees charters.

The Board has formed the following committees to manage its efforts and assist in performing duties and responsibilities. The Board has also approved the related charters that identify the roles and responsibilities of the Committees. In forming such committees, the Board has considered the required expertise and qualifications of Board Committees members. They were also formed in response to Zain's business and regulatory requirements imposed by the Capital Markets Authority (CMA):

- Corporate Governance Committee
- Risk Committee
- Audit Committee
- Nominations and Remunerations Committee

All information regarding the purpose and the achievements of the mentioned Board Committees have been provided in the table in the third rule.

ACHIEVEMENTS OF THE BOARD OF DIRECTORS DURING 2016

1. Completed the compliance requirements of the latest developments in the rules and laws of the Capital Markets Authority, with regards to corporate governance and compliance, in a timely manner to meet the deadline as set out by the CMA.
2. Settlement of several outstanding claims and allegations with different parties, which could affect the Group focus in its core level, as follows:
 - A final settlement with Bharti Airtel (a leading Indian telecommunications company) on arbitration of disputes arising from the sale of African assets agreement.
 - Settlement of tax claims with the Iraqi government, which led the Iraqi tax authority to withdraw its claims and to cancel interests and penalties amounts. Moreover, all restrictions on the company's accounts, bonds and shares have been lifted.
3. Obtained the approval to extend the license issued to Zain Saudi Arabia for additional 15 years, and to facilitate the issuance of a Unified Telecommunication License, a decision which is expected to have a positive impact on the financial and operational performance, which will contribute in reducing the amortization license.
4. The expansion of Zain digital front investments, aimed at the development of creative business flows, and the support of the Group's strategic direction in the transition to a sustainable digital telecom operator, including investments such as the following:
 - neXgen smart city advisory and consulting services provider.
 - FOO: a successful Lebanon-based entity offering a full spectrum of innovative end-to-end mobility related services including digital strategic consultancy, user interface (UI-UX), app and web development solutions, digital marketing and incubation of startups.
 - Colle Capital Partners early stage technology venture fund.
 - Strategic cooperation with Booking.com.
5. The launch of the 4G network in Sudan, in accordance with the strategic direction of the group to promote data services revenues.

BOARD COMMITTEES

Board Audit Committee

Created on 9 June 2011

- Abdulaziz Al Nafisi (Chairman)
- Waleed Al Roudan
- Abdulmohsen Al Fares
- Jamal Al Kazemi (Independent)

Purpose

Overseeing the quality and integrity of the accounting, and audit practices; assessing internal control systems, risk management framework, financial reporting and corporate governance framework; evaluating the performance and qualifications of the external auditors and the company's relationship with its external auditors; monitoring the performance of the company's Internal Audit function and the company's compliance with legal and regulatory requirements.

Major Achievements in 2016

- Appointment of Mr. Jamal Al Kazemi as the independent member in May 2016.
- Monitored the performance of the Internal Audit function during 2016.
- Supervision of the Internal Audit function in 2016 by reviewing performance on a quarterly basis and any corrective actions taken to address issues highlighted in the most recent quality-control review.
- Instructed the Internal Audit function to prioritize issues which are older than two years, indicate the reasons, and set a plan.
- Guided all functions to keep Internal Audit team aware of any fraudulent actions within the company, or any of its subsidiaries, within a week of discovery in compliance with regulations.
- Reviewed Internal Audit reports and submitted them to the Board for discussion and determining the action plan based on them.
- Appointment of independent advisers to complete the regulatory requirements regarding internal control review (ICR) in collaboration with the Corporate Governance and Compliance department.
- Prepared the Audit Committee report, which shall be approved by the Board and recited by the Chairman during the Annual General Meeting (AGM).

Board Risk Committee

Created on 12 May 2015

- Shaikha Al Bahar (Chairman)
- Bader Al Kharafi
- Jamal Al Kazemi (Independent)

Purpose

Reviewing the level of risk; maintaining a clear mapping of the risks faced by Zain; ensuring that appropriate systems of risk-management and control have been put in place; evaluating options and taking decisions on possible options for mitigating risks. Monitoring the performance of the Risk Management department; reviewing transactions to be made by the company with the related parties and providing proper recommendations to the Board.

Major Achievements in 2016

- Appointment of a Chief Risk Officer and evaluate his performance.
- Restructuring of the risk management function evaluation and hiring of skilled talent with the required expertise in risk management.
- Appointment of Ernest & Young (EY) as risk consultants.
- Approval of the risk management's policy, strategy and plan and recommend it for Board's approval.
- Approval of the principles and standards of risk assessment and monitoring the effectiveness of management controls continuously.
- Revision and assessment of key risk metrics and practices within subsidiaries as well as the communication network between different operations.
- Revision of risk management reports and submitting them to the Board for discussion and determining the action plan based on them.

Board Nominations and Remunerations Committee

Created on 12 May 2015

- Bader Al Kharafi (Chairman)
- Abdulaziz Al Nafisi
- Jamal Al Kazemi (Independent)
- Jamal Al Kandary

Purpose

Support the Board in performing its supervisory role by providing recommendations about the independence and election of members during the AGM, and the appointment of executive management with high level qualifications and expertise; confirm the integrity of the remuneration policy for the Board and management; provide assistance to the Board in the annual assessment of members and the management in light of the company's goals and in line with the approved Key Performance Indicators (KPIs); identify a training plan to help the Board and management with performance development.

Major Achievements in 2016

- Revision of the company's remuneration policy, which entailed discussions regarding the distribution of amounts during 2016 and raising the amounts for Board approval.
- Approval of the Human Resources policy and recommendation for final Board approval.
- Formed a performance committee comprising of executive management members, to evaluate employees' performance and remuneration.
- Oversaw the evaluation of the members of the Board and Executive Management to provide the Board with the results.
- Worked with departments and committees to appoint the talents required in the company according to regulatory requirements.
- Prepared the remuneration report as per the regulatory requirements and submitted it to the Board for their review and approval to be recited during the General Assembly.

Board Corporate Governance Committee

Created on 11 November 2013

- Asaad Al Banwan (Chairman)
- Abdulaziz Al Nafisi
- Jamal Al Kandary

Purpose

Overseeing the development and regular assessment of the company's approach to corporate governance issues; ensuring that internal charters and policies are in place to protect interests of shareholders; overseeing the process and structure of accountability by executive management to the Board and by the Board to shareholders, in line with regulations and sound governance practices.

Major Achievements in 2016

- Revision of reports prepared as per regulations before they are submitted to the Board for approval.
- Reappointment of EY as the corporate governance consultants.
- Revision and analysis of the laws and regulations issued by the regulatory authorities with regards to corporate governance to guarantee the highest levels of compliance.
- Revision and approval of all policies and charters according to any updates within the laws and regulations, and provide them for Board approval.
- Overseeing the disclosure procedures in the company and work with the corporate governance department and parties in the company to confirm compliance with laws and regulations and internal policies.
- Reviewed annual corporate governance report and submitted it to the Board for approval before reciting it during the AGM by the Chairman.

BOARD COMMITTEES MEETINGS DURING 2016

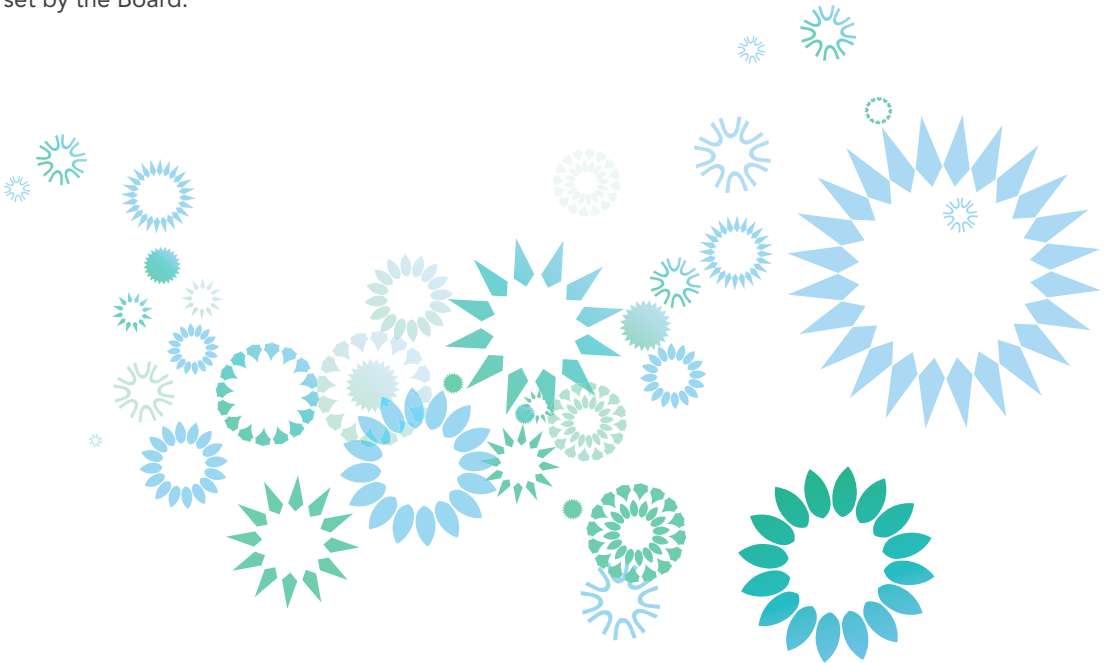
NAME	AUDIT COMMITTEE	RISK COMMITTEE	NOMINATIONS AND REMUNERATIONS COMMITTEE	CORPORATE GOVERNANCE COMMITTEE
Asaad Ahmed Al Banwan (Chairman)				4/4
Bader Nasser Al Kharafi (Vice Chairman)		3/3	2/2	
Shaikha Khaled Al Bahar		3/3		
Waleed Abdullah Al Roudan	4/4			
Abdulmohsen Ibrahim Al Fares	4/4			
Abdulaziz Yaqoub Al Nafisi	4/4		2/2	4/4
Jamal Ahmed Al Kandary			2/2	4/4
Jamal Shaker Al Kazemi (Independent)	2/4	2/3	2/2	
TOTAL	4	3	2	4

THE RELATION BETWEEN THE BOARD AND THE EXECUTIVE MANAGEMENT

The Board has full access to members of the executive management for the purpose of understanding issues facing Zain, during Board meetings, to obtain information about the company and its operations. The Board monitors the performance of executive management through ensuring that business operations are carried out in accordance with policies and procedures that have been approved by the Board. This also includes holding periodic meetings with executive management to discuss the company's activities and any challenges that may have arisen, as well as discussing pertinent updates.

There is a separation of power and responsibilities between Zain Board and executive management, and accordingly roles and responsibilities have been identified and divided to reinforce this structure.

To facilitate the Board's oversight role, executive management provides the Board and concerned committees with periodic performance reports covering management's performance for any given period according to the Key Performance Indicators set by the Board.



RULE III: RECRUIT HIGHLY QUALIFIED CANDIDATES FOR MEMBERS OF THE BOARD OF DIRECTORS AND THE EXECUTIVE MANAGEMENT

ABOUT THE MEMBERS OF THE BOARD AT ZAIN



Asaad Ahmed Al Banwan – Chairman
Asaad Al Banwan completed his Bachelor of Science (in Finance and Management) degree at the University of Kuwait; he carries an outstanding experience in the investments sector. He held a number of leadership

positions at Kuwait Investment Company, Wafra International Investment Co., and National Investment Company, where he served as the Chief Executive Officer. Al Banwan was elected to become the Chairman of the Board at Zain. Al Banwan is one of the economic leaders who participated in the building and the establishment of many of the economic entities in Kuwait and the Middle East. He held executive and management positions in several companies and regional financial institutions. His experience in the investment field led to his appointment as the President of the Union of Investment Companies in Kuwait.



Shaikha Khaled Al Bahar – Board Member
Shaikha Al Bahar is the Deputy Chief Executive Officer of National Bank of Kuwait Group (NBK), the largest financial institution in Kuwait and one of the largest banks in the Arab world.

Previously, she had been the CEO of NBK Kuwait since 2010. Al Bahar is an experienced strategic thinker with extensive experience in institutional financing including privatization, project finance, advisory services, bond issues, Build/Operate/Transfer financing, Initial Public Offerings, GDR programs and private placements. Throughout her successful career at NBK, Al Bahar has played a major role in turning the bank into a leading regional institution, with more than USD 82 billion in assets and a wide international presence in 15 countries. NBK has consistently been awarded the highest credit ratings by Moody's, Standard & Poor's and Fitch Ratings and ranked among the top 50 safest banks in the world since 2009. Al Bahar is also a member of various Management Committees at NBK Group. She is the Chairperson of National Bank of Kuwait (Lebanon), Chairperson of NBK Capital, Board Member of National Bank of Kuwait (International) P.L.C. and Vice Chairperson of The Turkish Bank, Turkey. She is also a Board Member of Zain Group, Kuwait.



Bader Nasser Al Kharafi – Vice Chairman

Bader Al Kharafi is one of the most active business leaders in the Middle East and Africa, with an exceptional record in business development and consultancy projects for large firms and international organizations. Al Kharafi holds the presidency and membership of several Boards in the industrial and banking sector. Bader completed the Executive MBA degree from London Business School and holds a Bachelor's degree in Mechanical Engineering from Kuwait University. Al Kharafi is also the Chairman of Kuwait based Gulf Cables & Electrical Industries KSC, a Board Member of Foulath Holding B.S.C., a Board Member of Refreshment Trading Company (Coca-Cola), and a Board Member of Gulf Bank. Al-Kharafi was appointed to the Middle East Advisory Board of Coutts, the wealth division of the Royal Bank of Scotland Group.



Abdulaziz Yaqoub Al Nafisi – Board Member

Al Nafisi completed his Bachelor's degree in Economics from Whittier College in California, USA in 1977. Acquiring exceptional professional experience in and outside of Kuwait over the years, he assumed leadership positions at several institutions in the banking, real estate investment and telecommunications sectors. He started his career as the head of credit facilities department at Burgan Bank from 1978 to 1981 and later appointed chairman of the board at Kuwait Finance and Investment Company Brokerage (KFICB) from 1989 to 1992. He has also assumed the directorship of the board of Kuwait Investment Group from 1993 to 1996. Al Nafisi presided over the board of directors at Al Madar Finance and Investment Co. from 1998 until 2004. He was also the chairman of the board at Mada Communications from 2000 until 2011. Al Nafisi was a board member at Wethaq Takaful Insurance Company between 2000 and 2004. Currently Al Nafisi is the vice chairman of the board at Kuwait Finance House (KFH).



Abdulmohsen Ibrahim Al Fares – Board Member

Abdulmohsen Al Fares was first elected to the Board in 1999. He was previously the Chairman of the Kuwait Cable Company and is currently a Board Member of the Egypt Kuwait Holding Company. He earned his Bachelor's degree in Electrical Engineering from Kuwait University in 1967.



Waleed Abdullah Al Roudan – Board Member

Waleed Al Roudan holds a Bachelor's degree in Economics from the University of Kuwait. He joined the Kuwait Investment Authority (KIA) in 1986 and held several positions until he was appointed Manager of Investments – General Reserves in 2006. Al Roudan also represents the KIA on the Boards of companies where KIA is a shareholder. Apart from being a member of the Board of Directors of Zain Group, Al Roudan is also the Chairman of the Board at Egypt Kuwait Holding Company.



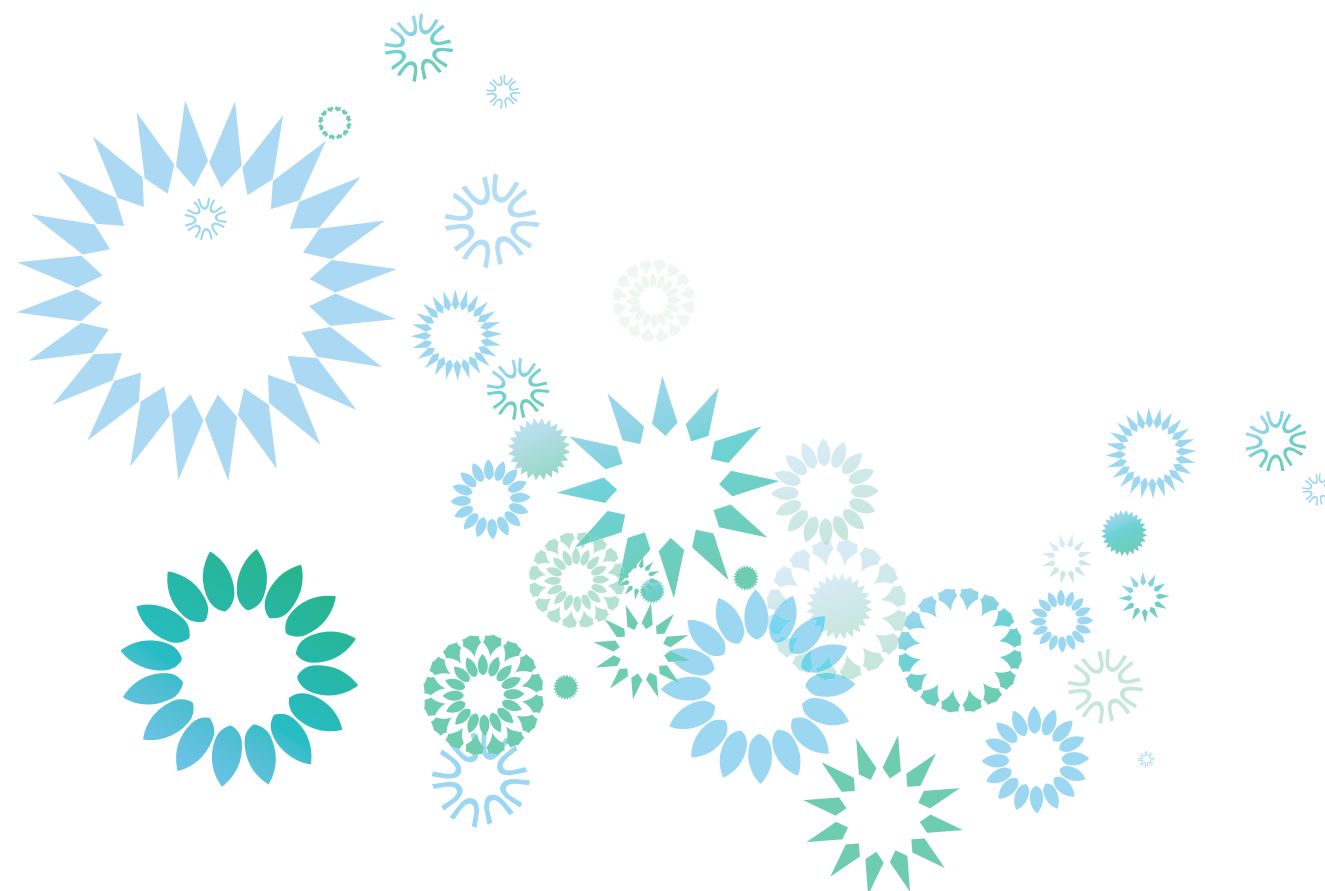
Jamal Ahmed Al Kandary – Board Member

Jamal Al Kandary earned his Bachelor's degree in Law from the University of Beirut in 1992, and a degree in Literature from Kuwait University in 1983. He has been Vice-Chairman of Iraq Kuwaiti Holding Co. since 2004. Al Kandary has also been a member of the Board of Zain Jordan since 2002. He has previously held the position of Chairman of Al Ahlia Real Estate Co. (1995-2002).



Jamal Shaker Al Kazemi – Independent Board Member

Jamal Al Kazemi serves as the CEO and Chairman of Shaker Al Kazemi & Sons, a real estate company. He has held this position since 1982. Al Kazemi has also been the Chairman of Al Arabi Sporting Club since 2000. He is a Board Member of Ahli United Bank and Vice Chairman of Marsa Alam Holding Company.



ABOUT THE EXECUTIVE MANAGEMENT AT ZAIN GROUP



Scott Gegenheimer - Chief Executive Officer

Scott Gegenheimer joined Zain Group in December 2012 bringing with him an outstanding international experience in the telecom sector, in the USA, Eastern Europe, the Middle East and Africa. His

leadership style drives efficiency and effectiveness, with a focus on value creation and business development. He holds a Bachelor's of Science degree in Finance and Management from Northern Illinois University and an MBA from DePaul University in Chicago. He has numerous achievements in the telecommunications sector, and has presided over many of the telecommunications companies in the Middle East and North Africa. Gegenheimer has also held leadership positions across many global and international companies. He was recently appointed a Board member of the GSMA for the 2017 to 2018 period.



Ossama Matta – Chief Financial Officer

Ossama Matta was appointed CFO of Zain Group in June 2010. With more than 20 years of finance and management experience in the Middle East. He attained an MBA from the

American University in Beirut and is a Certified Public Accountant (CPA). Matta joined the Group in 2004 as the CFO at Zain's management operation in Lebanon, then known as "MTC touch". Subsequently Matta was promoted to Chief Financial Officer at Zain Kuwait in early 2008, and again promoted to the role of Zain Group Middle East Chief Finance Officer, overseeing the operations in Bahrain, Iraq, Jordan, Lebanon, Kuwait, Saudi Arabia and Sudan.



Emre Gurkan – Chief Strategy & Business Development Officer

Emre Gurkan was appointed Chief Strategy Officer of Zain Group effective February 2014. A seasoned telecommunications executive, he came to Zain with over 20 years of experience,

encompassing deep consulting and industry expertise in the Middle East, Africa, North America and Europe. Gurkan holds an MBA from Massachusetts Institute of Technology, an MS in Management Information Systems from London School of Economics and Political Science and a BS in Computer Engineering from Istanbul Technical University.



Hisham Allam – Chief Technology Officer

Hisham Allam was appointed the role in December 2011 having over 20 years of experience in the fields of information technology and telecommunications. Prior to his appointment, Allam was

the Chief Operating Officer of Zain Sudan, having joined the operation in May 2003 as Chief Technology Officer. Allam holds a Bachelor of Science in Electronics Engineering degree from the University of Kent in England.



Mohammad Abdal – Chief Communications Officer

Mohammad Abdal was appointed Chief Communications Officer of Zain Group in July 2015 heading three significant divisions within Zain Group: namely Investor Relations,

Corporate Communications, and Corporate Governance & Compliance. Over the past 15 years Abdal has risen rapidly through the organization; playing a key role in various aspects of the company's success. In 2005 Abdal joined Zain Group from Zain Kuwait. Abdal is a founding member and Chairman of the Middle East Investor Relations Society chapter in Kuwait and a member of the globally recognized National Investor Relations Institute (NIRI). He graduated in 2001 from Portland State University, Oregon, US with a Bachelor of Science in Business Administration and a double major in Finance & Management Information Systems.



Duncan Howard – Chief Commercial Officer

Duncan Howard was appointed to this role effective July, 2014. He oversees all commercial, marketing, branding and advertising areas across Zain's regional footprint. Howard came to

Zain with 20 years of experience in mobile, television and fixed telecom experience across the Middle East, Europe and North America. Howard holds an MBA from the Open University, UK and attained a BA (Hons) System Analysis from the University of West of England.



Adlai Shalabi - Head of Legal

Appointed May 2015, Adlai Shalabi manages a legal team that provides support and advice related to all Zain's activities including corporate structuring, compliance, strategy, commercial, finance, M&A, tax,

litigation, labor law, human resources and procurement. He practiced law in Illinois for 14 years and gained wide recognition for the provision of advisory services in all aspects of corporate advising. Shalabi was an accelerated three-year graduate in 1989 from the University of Illinois in Chicago, where he double majored in Political Science and Criminal Justice, and minored in History. After receiving his Bachelor of Arts degree, he attended John Marshall Law School and received his Juris Doctorate degree in 1993.



Dr. Andrew Arowojolu - Chief Regulatory Officer

Dr. Andrew Arowojolu was appointed Group Chief Regulatory Officer, effective October 2016. He liaises with Regulatory Authorities across the company's eight-country footprint. A seasoned

telecom executive with over 25 years of experience and a proven track-record in the telecom industry across the Middle East, Europe, Africa and Asia. Arowojolu joined Zain in 2003 and holds a Doctorate degree (Ph.D.) in Mobile Radio Communications (1994) and a M.Sc., (Distinction) in Microelectronic and Telecommunications from University of Liverpool, United Kingdom (1991) and a B.Sc. (First Class) in Electrical and Electronic Engineering from University of Lagos (1988).



Venkatesh Jandhyala – Chief Internal Auditor

Venkatesh Jandhyala was appointed Chief Internal Auditor of Zain Group effective April 2014, 10 years after joining Zain. Rising through the ranks within Zain Group, Jandhyala is a dynamic

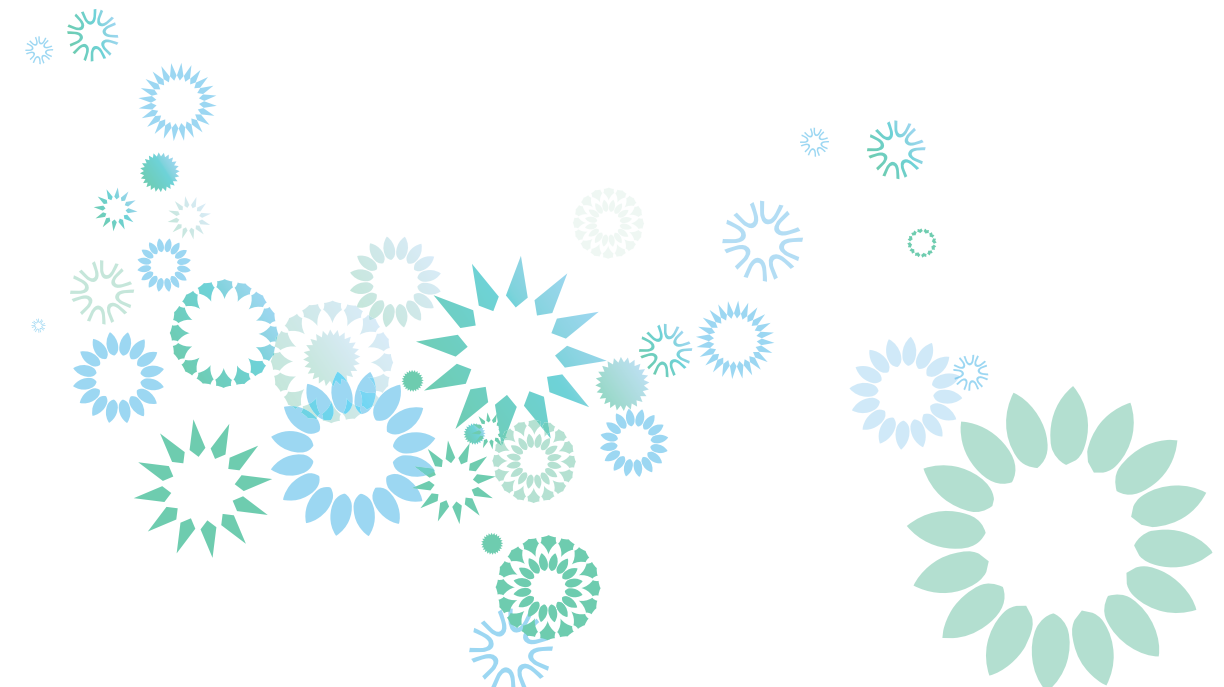
professional with over 24 years of proven leadership track record with telecommunications and consulting firms, having worked in complex business environments in the Americas, Europe, Africa, Middle East & Asia. Jandhyala has a Bachelor of Commerce and Law degrees from Osmania University, Hyderabad, India and has received a scholarship for a dual degree in Master of Science in International Finance and a MBA in Finance and Marketing from the University of Miami, USA. He also has a Chartered/Board Secretary diploma from India.



Abdul Ghaffar Setareh – Chief Risk Officer

Appointed the role in January 2016, Abdul Ghaffar Setareh is an accomplished corporate executive with over 30 years of operational, engineering, insurance and risk management experience in mobile

telecommunications and technology sectors across the Middle East and Africa. Setareh graduated with a Telecommunications Engineering degree from the Ecole Nationale des Telecommunications, Rabat, Morocco in 1984.



BOARD NOMINATIONS AND REMUNERATIONS COMMITTEE

The Company has formed the Board Nominations and Remunerations Committee to handle the responsibilities related to the selection of qualified persons for the membership of the Board of Directors and executive management. The committee also determines the framework that regulates the performance evaluations and remunerations. The Board Committees table (available in the previous section) explains the main role of the committee and its most significant achievements during 2016.

REMUNERATION REPORT FOR THE BOARD AND EXECUTIVE MANAGEMENT

The remuneration system is a key element in value creation and Zain has an advanced remuneration scheme based on the alignment of the Board and the executive management's goals and interests with those of the company and shareholders. The system reflects the regulatory requirements and best practices that have been adapted to the company's specific structure and circumstances.

The policy is considered as part of the overall Corporate Governance framework of the company. The remuneration policy sets out the basis for the remuneration of the Board of Directors and the executive management and its alignment with the local laws and regulations in addition to the company's long-term performance and risk.

The Board, through the Board Nominations and Remunerations Committee (BNRC), is responsible for creating and implementing the remuneration policy. The BNRC supports the Board in preparing/reviewing and developing the remuneration policy in a timely manner.

The committee assists the Board by providing timely reports on the implementation of the remuneration policy including recommendations to the Board on key components and the structure of the employees and executive management remuneration. In monitoring the implementation of the remuneration system, the committee ensures that there are no significant deviations from the policy and the rewards system. The committee provides reasons for the deviations in a report to the Board of Directors in accordance with related regulatory requirements. Board remuneration is based on the results of their assessment.

KEY PRINCIPLES

Zain's remuneration system is based on the following principles:

- Remuneration is linked to the risk associated with the position.
- The company is looking to attract and retain the best professionals and talents.
- Fairness in the company internally is guaranteed and competitiveness in the market is promoted.
- Performance is benchmarked against the market using analysis from consultancy firms specializing in remuneration.
- Transparency in remuneration policy is ensured.
- Remuneration is linked to key performance indicators (KPIs).
- Remuneration is in line with the company's strategy as well as short-term and long-term objectives.
- Remuneration is in line with required skills and qualifications of each position.

BOARD MEMBERSHIP REMUNERATION

Board remuneration is approved during the Annual General Meeting (AGM) by the majority shareholders, and as per recommendations of the BNRC to the Board. The total remuneration amount shall not exceed 10% of the net profit of the company (after the deduction of depreciation, reserves, shareholders' dividends of not less than 5% of the company's capital or any higher percentage as stipulated in the company's Articles of Association).

The total remuneration amount received by the members of the Board for their services on the Board and its committees during the year 2016 is KWD 275,200. This amount has been divided equally among the Board members.

EXECUTIVE MANAGEMENT REMUNERATION

The remuneration of executive management takes into account the environment in which the company operates, the performance and the risk tolerance. It includes the following key components:

Fixed remuneration

The fixed remuneration in the company is established taking into account the level of responsibility and the professional career path of the employee within the company. The fixed remuneration is revised by BNRC in cooperation with the relevant department on an annual basis.

Fixed remunerations include salaries, allowances and benefits (including end of service benefits) is granted according to the Company's salary and grading structure approved by the Board, applicable laws and regulations, approved Human Resources Manual and employees' contractual agreements.

Variable remuneration

The variable annual remuneration is linked to the achievement of previously established targets. This compensation system is designed to motivate and reward executive management. Variable remuneration amounts are allocated to individuals depending upon individual and companywide performance. The variable remuneration can be provided as a cash bonus or equity shares or any other type of long-term incentives if applicable. This is determined annually by the BNRC before it is approved by the Board.

The table below indicates the total remuneration amount given to the executive management during 2016:

Category	No. of Employees	Fixed Remuneration (KWD 000')	Variable Remuneration (KWD 000')	Total (KWD 000')
Executive Management at Zain Group	14	2,547	1,100	3,647

RULE IV: SAFEGUARD THE INTEGRITY OF FINANCIAL REPORTING

BOARD AUDIT COMMITTEE

The Company has formed the Audit Committee, which is responsible for assisting the Board in performing its obligations with respect to supervising the quality and integrity of accounting practices, auditing and internal control framework, risk management and financial reporting. The Board Committees table (available in the previous section) explains the main role of the committee and its most significant achievements during 2016.

INTEGRITY OF THE FINANCIAL STATEMENTS

The Board of Directors ensures that certain procedures are in place to guarantee the safety and integrity of all financial statements presented to the shareholders. The company, represented by the Board of Directors, undertakes to the shareholders the integrity of all financial statements.

In addition, the Board approves the annual budgets and the annual and periodic financial statements. It also monitors the implementation progress of strategic plans and budgets and the major capital expenditures of Zain and the process of acquiring and disposing of assets. The Board also ensures that Zain maintains adequate levels of capital and reserves, according to sound commercial practices and applicable regulations, and confirms the reliability of the financial and accounting systems and reports. The role of the Board entails nominating the external auditor to the AGM and reviewing audit reports from the external auditor. Moreover, the Board conducts discussions with the Board Audit Committee (BAC) about internal audit, compliance, external audit, and financial statements related disclosures. The Board is also responsible for the submission to the AGM, of clear recommendations on dividend distribution.

INDEPENDENCE AND FAIRNESS OF THE EXTERNAL AUDITOR

The internal policies and charters emphasize the importance of compliance with the applicable laws and regulations with regards to the independence of the external auditor. The Board approves the services provided by the external auditor, based on the recommendations provided by BAC, and ensures that there is no conflict with the fairness and independence standards.

The BAC recommends to the Board of Directors the appointment, re-appointment or replacement of the external auditor including setting their compensation and reviewing their appointment letter. Wherein the General Assembly appoints the external auditor upon the Board's recommendation given that the nominated party is a registered auditor with the CMA. In addition, the BAC looks into the periodic rotation of the partners at the external auditor firms.

In light of the above, the company appointed Deloitte & Touche (Al Wazzan & Partners in Kuwait), one of the registered auditors with the CMA, as the external independent auditors. And in compliance with the conflict of interest principles and standards, Deloitte & Touche does not provide any additional services to the company.

ABOUT DELOITTE & TOUCHE (AL WAZZAN & PARTNERS)

Deloitte & Touche employs 244,400 professionals worldwide, and enjoys a globally connected network of member firms in more than 150 countries where it provides audit, consulting, financial advisory, enterprise risk, and tax services. Deloitte & Touche (M.E.) is a member firm of Deloitte Touche Tohmatsu Limited (DTTL) and is the first Arab professional services firm established in the Middle East region with uninterrupted presence since 1926 with more than 3,000 staff working in over 26 offices in 15 countries in the Middle East.

In Kuwait, Deloitte & Touche Al Wazzan & Co. has a strong audit practice serving leading enterprises and institutions in telecommunications, banking, aviation, insurance, construction, trading, manufacturing, energy and resources. The Kuwait audit practice has approximately 10 partners, principals and directors, and more than 110 dedicated audit professionals.

RULE V: APPLY SOUND SYSTEMS OF RISK MANAGEMENT AND INTERNAL AUDIT

BOARD RISK COMMITTEE

The company has formed a Risk Committee, which takes over the responsibilities related to designing and following the general risk management framework. The Board Committees table (available in the previous section) explains the main role of the committee and its most significant achievements during 2016.

INDEPENDENCE OF CONTROL FUNCTIONS AT ZAIN

The control functions at Zain include the internal audit, risk management, corporate governance and compliance as reflected in the company's corporate governance framework. These functions are independent, as the heads of each report directly to the respective Board committee. The Board ensures that Zain has comprehensive management reporting packs through which the Board and executive management regularly receive information on risk exposures from business units, the risk management function, internal audit and other topics within the corporate governance framework.

INTERNAL CONTROL SYSTEMS

Internal control is a comprehensive system extending to administrative, accounting and internal control. It is a set of tools and procedures followed within the company in order to achieve specific goals including increasing productivity and following the approved policies.

One of the main purposes of internal control is to enhance the integrity and accuracy of the financial statements, to protect the company's assets, and to protect the rights of the stakeholders. The precise information provided through the internal control systems cater for better management decisions.

The Board works to oversee and ensure the proper application of the systems of internal control and risk management through the Risk Committee, the Audit Committee and the Corporate Governance Committee. The board also ensures, through the relevant committees, that the internal audit and risk management are working properly and independently and in accordance with regulatory requirements.

The Board Audit Committee (BAC) assists the Board in overseeing the quality and integrity of the accounting and auditing processes and internal controls and practices relating to the preparation of financial reports of the company in addition to the company's relationship with external auditors.

The BAC and the corporate governance and compliance department monitor the preparation of the Internal Control Review (ICR) by an independent auditor. This report evaluates the strength of the internal control systems in the company. Accordingly, the BAC prepares a report to the Board including its recommendations with regards to the confidentiality of sensitive information, accounting and financial control tools, and risk management control system. The BAC and concerned departments ensure that all the processes are in compliance with international standards including, IIA, IFRS and other legal and regulatory requirements.

RULE VI: PROMOTE CODE OF CONDUCT AND ETHICAL STANDARDS

CODE OF CONDUCT

Zain is committed to maintaining the highest standards of ethical conduct. The Code of Conduct for Board Members reflects the business practices and principles of behavior that support this commitment.

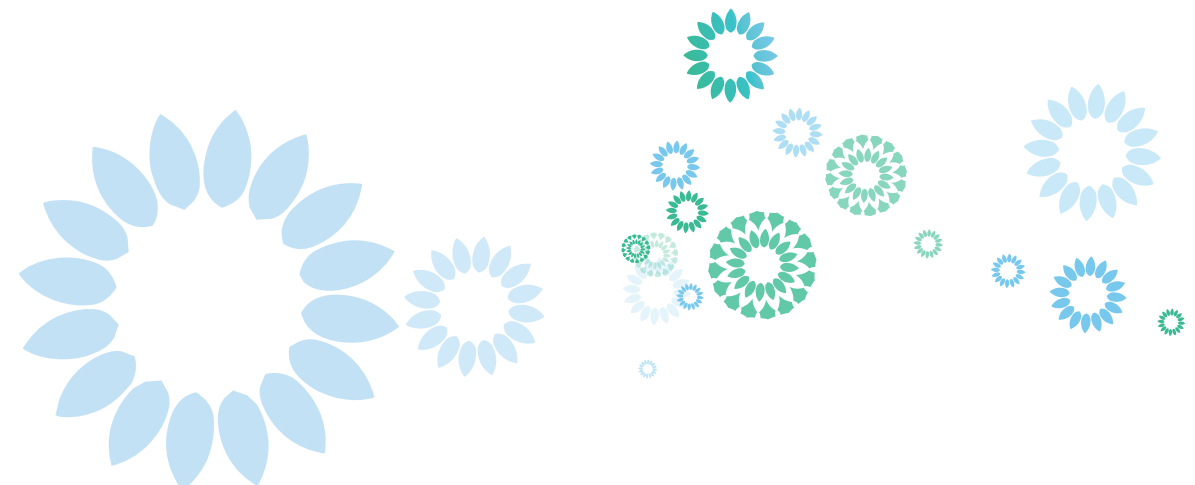
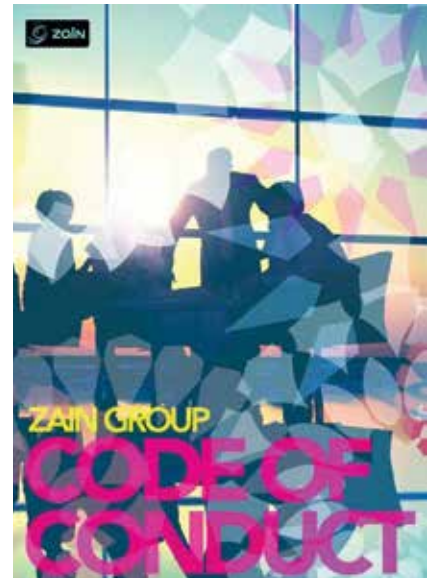
The company's Board of Directors is responsible for setting the standards of conduct contained in the code and for updating these standards as and when appropriate, to reflect legal and regulatory developments. This code is intended to provide guidance in mitigating conflicts and in general to uphold proper conduct. The basic principles of ethical conduct include integrity, impartiality, discretion, and committing sufficient time to perform the responsibilities.

In addition, the executive management and all the employees at the company abide by the rules stipulated in the employees' code of conduct, which has been approved by the Board.

The Board has approved a number of policies and procedures to emphasize the principles of corporate governance and compliance with corporate ethics and values. These policies include but are not limited to, protection of shareholders' rights, protection of stakeholders' rights, whistleblowing, and related party transactions, which details the rules and procedures regulating operations with related parties, whether between the company and its employees, the company and its Board members, their companies or their related parties.

CONFLICT OF INTERESTS

The company has developed a conflict of interest policy in line with the CMA regulations and the provisions of Kuwait Commercial Companies Law. The purpose of this policy is to ensure that appropriate procedures and measures are in place to identify and effectively manage any relevant or material conflicts of interest and that the Board of Directors deals with actual, potential and perceived conflicts of interest appropriately. All decisions are made in the best interests of the company and in accordance with laws and regulations. The executive management follows and implements the policies that have been approved by the Board in this regard.



RULE VII: ENSURE TIMELY AND HIGH QUALITY DISCLOSURE AND TRANSPARENCY

DISCLOSURE AND TRANSPARENCY

The Board of Directors monitors the disclosure procedures and communications with stakeholders internally and externally. The company is committed to providing timely, accurate, factual and balanced disclosures of all material information as per laws and regulations.

The Board also ensures that all disclosures are transparent and complete. The disclosure policy outlines various disclosure channels, and information that is considered material, which therefore requires disclosure by the company and its Board, executive management or insiders.

The company maintains a register for all disclosures including Board and executive management related disclosures. The register may be accessed by anyone during official working hours without any additional fees or charges. The company updates the register on a regular basis reflecting the actual state of related parties and its website contains an archive of all disclosures submitted to the Kuwait Stock Exchange (KSE or Boursa) during the past six years.

INVESTOR RELATIONS

Zain has a huge investor base that is considered one of the largest among the listed companies on the Kuwait Stock Exchange. This led to the company pioneering the establishment of an Investor Relations department in 2003. This function plays an important role in the protection of shareholders and stakeholders' rights. The Board has approved the investor relations policy as per CMA regulations. The responsibilities of this department include creating consistent and credible communication channels with investors, and promoting the company within the investment community, as well as attracting international and institutional investors. The department is also concerned with providing a bridge of communication between management and the financial community to enhance management's relationship with analysts and stakeholders. It also delivers market intelligence by following investor and analyst insights and opinions regarding the company.

Zain Group's Investor Relations department has been named the foremost team in Kuwait at an awards ceremony hosted by the Middle East Investor Relations Society (MEIR) in Dubai. This accolade was awarded on the grounds of Zain's efficient and transparent communications with investors.

CORPORATE GOVERNANCE AND INFORMATION TECHNOLOGY

2016 saw major developments in corporate governance, with one of the main events being meeting the deadline for compliance with the corporate governance regulations that were issued by the Capital Markets Authority (CMA) on June 30, 2016. Zain provided the CMA with the relevant report for implementing Corporate Governance for the year 2016.

All information was submitted on time, and no further comments were given by the CMA nor did the authority require any additional action. This is a solid indicator that Zain works closely with the authorities and the consultants to ensure compliance with the highest standards of corporate governance.

In addition, the company is eager to utilize all the innovative resources that are provided by the CMA to support the corporate governance culture within the company. Such resources include access to conferences, workshops and other awareness events organized by the authority.

The CMA launched the electronic portal that allows users to submit forms and reports over the internet and to complete necessary requirements by attaching relevant documentation. This portal is an essential and innovative means of communication between the companies and the CMA as it simplifies the procedures and supports efficiency. Zain remains enthusiastic to be a part of such innovation, and it was a priority for the company to subscribe to the portal services. Zain remains committed to complying with the CMA and KSE guidelines and so all communications are done through email using designated addresses. This is driven by the commitment to conform, excel and facilitate processes.

KSE has unveiled a new webpage for companies, which allows them to update their information and upload any disclosures, data, and announcements directly via the website in a timely manner.

Zain assigned a legal representative to receive the service code that enables the user to enter and update the information on the website. The user of this code is authorized by the company to issue and update announcements and disclosures.

Zain has also adopted an electronic filing system internally. It contains all corporate governance-related topics including correspondence with governmental and regulatory authorities, disclosures related to Board Members, executive

management, and insiders. This online library contains all policies and procedures, charters, and other material within the corporate governance framework.

In September 2015, Zain signed a memorandum of understanding with the Kuwait Clearing Company (KCC) to distribute annual dividends to shareholders electronically to their bank accounts which are subscribed to the service (Al Maqasa) beginning from December 31, 2015. Zain was the first company to subscribe to the service after local banks, and the agreement included a number of clauses to guarantee smooth cooperation between Zain and KCC in the exchange of shareholders' data, especially those who want to distribute their annual cash dividends to their bank accounts directly without the hassle of issuing a check or visiting the KCC. This saved the time and effort spent during this process.

RULE VIII: RESPECT THE RIGHTS OF SHAREHOLDERS

PARTICIPATION IN THE ANNUAL GENERAL MEETINGS

Zain ensures that all shareholders are able to exercise their rights fairly, including their right to vote in the AGM. As per the articles of association each shareholder, regardless of the number of shares held, shall have the right to attend the General Assembly meetings, and shall have a number of votes equal to those allocated for that class of shares.

An invitation is sent to all shareholders to attend the General Assembly, whether ordinary or extraordinary, through publication in local newspapers or through e-mail or fax, provided that the shareholder has given this information to KCC.

Zain encourages all shareholders to attend the General Assembly and to vote on agenda items and Board decisions including the election of Board Members. The Board calls for the AGM during the first three months of the closing of the financial year, at the time and location specified in the AGM invitation.

Zain also acknowledges shareholder's right to delegate a person to attend the General Assembly meetings through a special power of attorney or an authorization template prepared by the company for this purpose. The company also allows shareholders to have enough time prior to the General Assembly to obtain all supporting information related to items on the agenda, and in particular the Board of Directors and external auditor's reports and the company's financial statements.

The Board and the external auditor have an obligation towards shareholders to answer any questions that they may pose during the AGM.

PROTECTION OF SHAREHOLDERS' RIGHTS POLICY

Zain is committed to protecting the rights of shareholders in a way that guarantees the best interest of both shareholders and the company. As part of Zain's corporate governance framework, the company has developed the Shareholders' Protection Policy, which reflects the Board's commitment to protecting the rights of all shareholders and for updating these standards as and when appropriate, to reflect changes in the provisions of the laws, bylaws and instructions issued by regulatory authorities.

The Company ensures that all shareholders practice their rights fairly and equally and are protected against any violation of those rights. It is also the responsibility of the company to ensure that assets of shareholders are protected against any misuse by the company's management, Board Members or key shareholders.

As per the articles of association, all shareholders are treated equally. The company shall not in any case block any of the shareholders' rights regardless of the class of the shares they own, nor shall the company impose any standards that can lead to any discrimination between different classes of shareholders. All the above-mentioned policies and internal rules shall by no means affect the interests of the company, and must conform to laws and regulations.

SHAREHOLDERS' REGISTER AT THE KUWAIT CLEARING COMPANY (KCC)

In April 2004, Zain signed an agreement with the Kuwait Clearing Company (KCC) to keep a record of its shareholders with the KCC. Accordingly, the KCC provides the following:

- Create an index for all shareholders, which includes the names, trading numbers, number of shares and nationalities.
- Update the data according to all trading activities on the KSE.
- Perform all procedures for transfer of ownership in addition to buy/sell transactions after obtaining all the required approvals from the regulatory authorities.
- Track procedures for lost/damaged certificates and the related issuance of new ones.
- Distribute cash dividends and stock splits.
- Provide the company with shareholders' balance reports on a daily/monthly basis.

- Provide the company with the profits reports on a monthly basis.
- Provide the company with unclaimed dividend reports on a monthly basis.
- Distribute outstanding share certificates, issue new shares for heirs, and register them.
- Record mortgage transactions on company's shares.
- Prepare AGM invitations in coordination with the company.
- Allow shareholders to obtain the company's information or documents in compliance with laws and regulations.

RULE IX: RECOGNIZE THE ROLES OF STAKEHOLDERS

STAKEHOLDERS' RIGHTS

Zain is committed to protecting the rights of all stakeholders and to creating wealth, jobs and sustainability of a financially sound enterprise. As part of the company's corporate governance framework, Zain has created the Stakeholders' Rights Policy to ensure that the rights of stakeholders are respected and protected by the company. Therefore, Zain's Board of Directors is responsible for setting the standards to protect the rights of all stakeholders and for updating these standards as and when appropriate, to reflect changes in the provisions of the laws, bylaws and instructions issued by regulatory authorities.

The major responsibilities of the company's Board towards its stakeholders are summarized as follows:

- To appoint competent executive management.
- To effectively and efficiently supervise the company's affairs.
- To adopt sound policies.
- To remain abreast of the company's conditions and performance.
- To maintain reasonable capitalization of the company.
- To observe laws, bylaws and instructions.

INVOLVEMENT OF STAKEHOLDERS

The company protects the rights of the stakeholders through the following:

- The company treats its stakeholders equally and fairly and ensures that the Board, the stakeholders and related parties are treated equally.
- Information about the company and its business is available for all stakeholders without difficulty at all times.
- The company has developed a whistleblowing policy that sets out the guiding principles and procedures for reporting any misconduct to the designated authorities within the Company so that appropriate corrective actions can be taken. This policy addresses Zain's commitment to integrity and ethical behavior by helping to foster and maintain an environment where employees, officers and directors can act appropriately without fear of recrimination.
- The company's official website is used as a communication channel with stakeholders (such as but not limited to, shareholders, investors, customers, regulatory authorities, etc.). Key information is made available to all stakeholders on the company's website; such information includes the annual report, quarterly reports, financial statements, disclosures made to KSE within the last six years, and additional data. All information uploaded on the website is approved by the Board and is published in compliance within regulatory requirements.

RULE X: ENCOURAGE AND ENHANCE PERFORMANCE

ASSESSMENT AND DEVELOPMENT OF THE BOARD

As per the CMA regulations on corporate governance, the company has developed a mechanism for Board assessment. It reflects the continuous dedication to improving the Board's performance and its supervisory role as well as the performance of each committee and each individual Director. Under the sponsorship of the Chairman, and through the BNRC, the Board shall conduct, at least annually, an assessment of its performance which addresses the processes and effectiveness in accomplishing its remits and responsibilities.

This evaluation shall be based on an assessment matrix approved by the Board. The Chairman, in cooperation with the BNRC, shall act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board. Moreover, the Chairman shall review the training and development needs based on the assessment results.

The assessment matrix focuses on five key points:

- Composition and qualifications: Board and Board committees structure, and the assessment of the mix of talents and expertise available among Board Members.
- Operations: efficiency of procedures within the governance framework.
- Communication: quality assurance of the reporting and information presented to the Board.
- Supervision: evaluation of the Board's ability to perform its governing role.
- Attendance: attendance of Board meetings and value of the member's input.

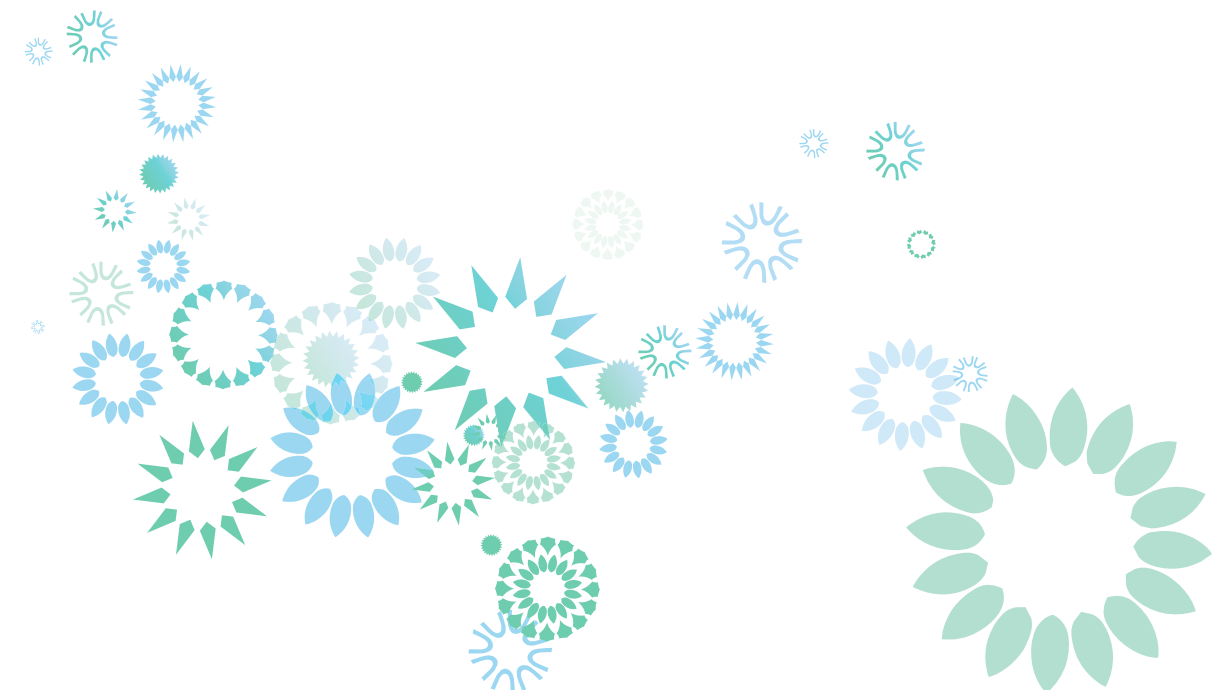
ASSESSMENT AND DEVELOPMENT OF THE EXECUTIVE MANAGEMENT

The BNRC provides support to the Board with regards to the evaluation of the executive management performance in light of the company's goals and the approved KPIs. At the end of the year, the CEO schedules meetings with each member of the executive management in order to evaluate their performance, through discussions about the functions' achievements and performance throughout the year. Another purpose for these meetings is to set the plan for the year ahead. The CEO meets on a quarterly basis with his direct reports to assess the strength and areas of improvements and accordingly recommend topics for training and development which shall be reflected on the results and performance. The CEO presents the results of the executive management evaluation to the Board, as well as explaining the basis and standards behind which the assessment procedures were constructed. The company refers to an international consultancy firm to perform an evaluation of the company's performance as a whole, as per key international competencies in the telecommunications industry. After consulting with the BNRC, the Board shall appoint/dismiss any member of the executive management. In addition, the Board is responsible for evaluating management's performance on an annual basis. The Board shall also approve the authorities given to the executive management.

VALUE CREATION

The Board works constantly to create the corporate values through achieving strategic goals and enhancing performance by accomplishing the following responsibilities:

- Approve the strategic direction of the company and its vision and mission.
- Review and approve the company's business plans, policies, and charters including the inherent level of risk in these plans.
- Determine the capital structure of Zain and set the financial objectives.
- Approve a clear policy for dividends distribution stipulating its different categories and taking into consideration shareholders' interests.
- Approve relevant key performance objectives and monitor the overall performance of the company.
- Approve the company's organizational structures and perform related periodic reviews.
- Ensure the company's compliance with approved policies and procedures.
- Approve and develop the internal policies and charters and ensure transparency.



RULE XI: FOCUS ON THE IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

CORPORATE SUSTAINABILITY

As part of its social contract, Zain aims to play a leading role in the local communities by ensuring that its activities contribute to socio-economic and environmental development otherwise known as the triple bottom line. The company is committed to applying responsible and ethical practices in every activity it carries out. Such practices are intended to guide the company in its social responsibility management to not only provide the necessary support for the community to achieve social benefits but also to ensure that it works to reduce the harmful effects of any of its activities on society and the environment.

The purpose of the corporate sustainability (CS) function at Zain Group is to work across organizational functions to embed the sustainability strategy and direction within the company. The CS strategy is in direct alignment with Zain's corporate strategy for the purpose of contributing towards the achievement of the Company's goals. Corporate sustainability, is therefore a direct contributor to value creation for the organization and its stakeholders, and enables Zain to gain competitive advantages over its competitors.

An effective CS function is one that addresses prevalent socio-economic and environmental deficits, addressing the negative impacts of the company's core business and leveraging its core competencies to achieve its objectives.

Internally, CS collaborates with relevant functions so as to ensure the company's compliance with local and international regulations and best practices related to ethics, transparency, human rights, labor practices, public policy reform, social responsibility and environmental performance.

ZAIN'S CS INITIATIVES

External CS activities serve as a key driver for innovation in the Company's operating markets and create a vested interest amongst stakeholders. These external activities also reflect the company's dedication to impact society and achieve a triple bottom line, providing value to the communities in which the company operates.

The communications and reporting activities undertaken by the CS function fulfill the company's obligations to maintain transparency and open channels of communication to each of the company's key stakeholders.

Such reports include:

- Annual sustainability report
- Annual thought leadership report

The company commits to promoting and engaging in social activities that help strengthen the employees and communities as well as to promote the enrichment and development of the society. Zain's CS initiative focus on alignment to the UN Sustainable Development Goals (SDGs) with a particular emphasis on quality education, capacity- building, youth development, localization of jobs, health, gender disparity, supporting marginalized and impoverished communities at the bottom of the pyramid, supporting adults and children with special needs, innovation, entrepreneurship, economic inclusion and self-sufficiency, and urgent socio-economic circumstances such as human displacement resulting in refugees and Internally Displaced Persons (IDPs).

Key initiatives involving CS in 2016 included:

1. 'INNOVATE FOR REFUGEES': IN COOPERATION WITH THE MIT ENTERPRISE FORUM

As the region faces increasing conflicts, violence, and human displacement, Zain renewed its commitment to work to ease the plight of those affected.

The company launched "Innovate for Refugees Arab Startup Competition" in cooperation with Massachusetts Institute of Technology (MIT) Enterprise Forum to seek disruptive and scalable long-term solutions by harnessing the power of technology.

2. ZAIN, UNHCR AND FACEBOOK COLLABORATE TO SUPPORT CONNECTIVITY FOR REFUGEES INITIATIVE

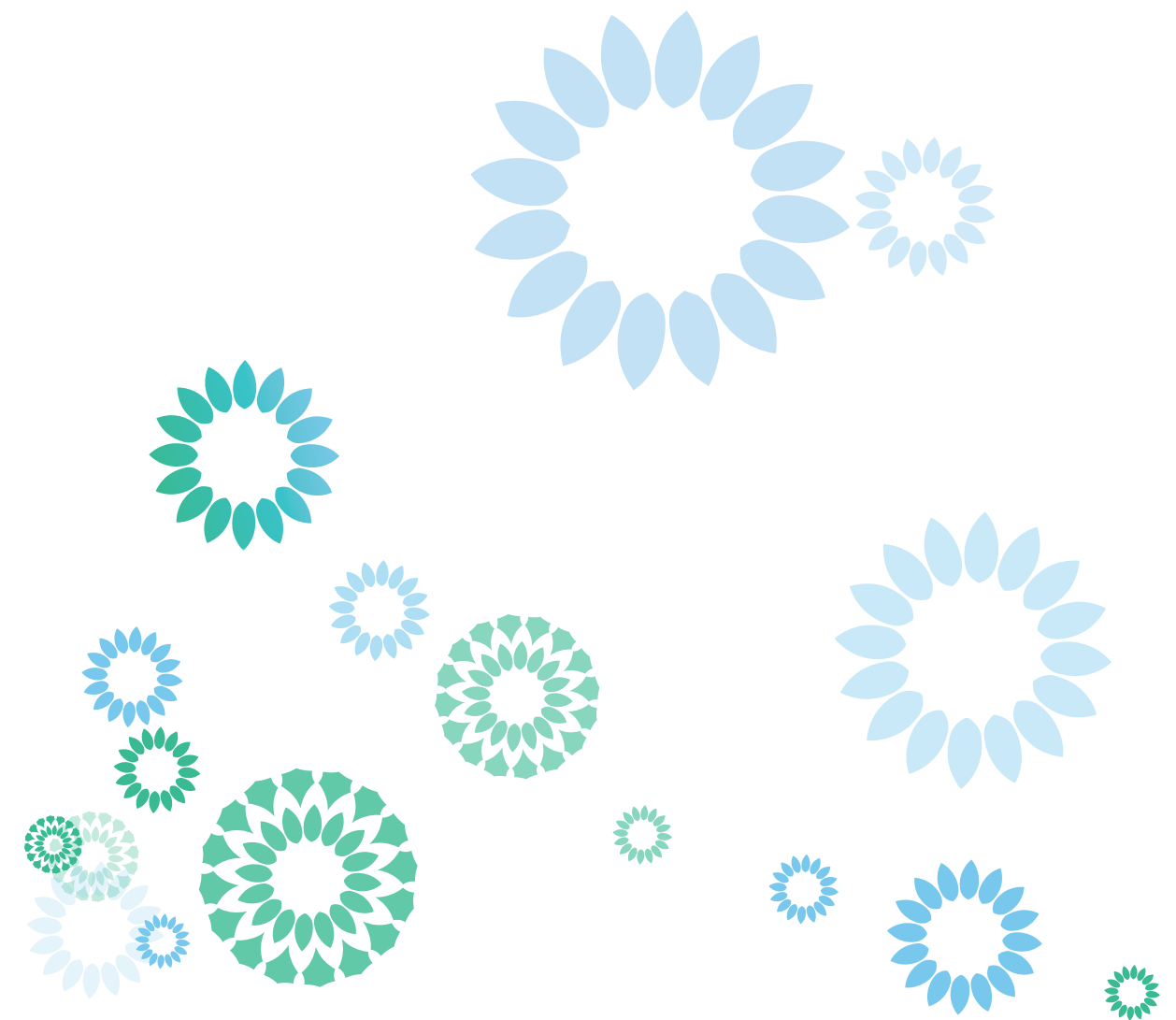
Zain Group announced a collaboration with the United Nations High Commissioner for Refugees (UNHCR) and Facebook to provide free, open and high-speed Wi-Fi internet connectivity to refugees in the Kingdom of Jordan for five years. This life-empowering service is being provided to refugees and surrounding local communities in key areas identified by the UNHCR, and forms part of its Connectivity for Refugees initiative.

The first phase of this project offered the services in four primary locations across the Kingdom. More than 16,000 refugees received free high-speed internet access for five years, which enables them to access educational material on the web. In addition, the center provides live educational sessions.

3. PROTECTING THE RIGHTS OF CHILDREN IN THE ARAB WORLD

Zain has doubled its efforts in the protection of the rights of children in the countries in which it operates. In partnership with the Child Helpline International, Zain provided free access to child helplines in Jordan, Saudi Arabia, Sudan and Kuwait.

The company also announced its support of the agenda put forward by the Regional Consultation for Middle East and North Africa Conference on Child Helplines in the Arab World, which recently convened at the Arab League headquarters in Cairo. The Conference discussed mechanisms to develop and activate child helplines in light of the conflicts and regional instability that currently exist and considered how to develop emergency response mechanisms for the delivery of services to children and displaced people in refugee camps. Additionally, the conference explored how ICT infrastructure could be leveraged to facilitate and support child helplines, while also encouraging member countries that do not have such facilities in place to introduce them. In addition to the above, the Group CS function also manages the company's engagement with international organizations such as the World Economic Forum and the Broadband Commission for Sustainable Development.



MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P KUWAIT

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

31 DECEMBER 2016

100

INDEPENDENT
AUDITOR'S REPORT

106

CONSOLIDATED
STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY

103

CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION

108

CONSOLIDATED STATEMENT
OF CASH FLOWS

104

CONSOLIDATED
STATEMENT
OF PROFIT OR LOSS

109

NOTES TO THE
CONSOLIDATED
FINANCIAL
STATEMENTS

105

CONSOLIDATED
STATEMENT OF PROFIT
OR LOSS AND OTHER
COMPREHENSIVE INCOME

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

MOBILE TELECOMMUNICATIONS COMPANY K.S.C.P.

QUALIFIED OPINION

We have audited the consolidated financial statements of Mobile Telecommunications Company K.S.C.P. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR QUALIFIED OPINION

As disclosed in note 2.1 to the consolidated financial statements, the Group has excluded the effects reported therein of applying International Accounting Standard (IAS) 29: Financial reporting in Hyperinflationary Economies, that we believe, should have been recorded in these consolidated financial statements with respect to its subsidiaries in the Republic of the Sudan, to conform to that standard.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

EMPHASIS OF MATTER

We draw attention to note 3 and note 27 to the consolidated financial statements which describes the effects on the subsidiary in Iraq due to the current security situation there and which discloses the uncertainty related to the outcome of various claims against it, respectively. Our opinion is not modified in respect of these matters.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our discussion of how our audit addressed that matter is provided in that context. In addition to the matter described in the Basis for Qualified Opinion section we have determined the matters described below to be the key audit matters to be communicated in our report.

a) Revenue recognition

The accuracy of telecom revenue recognition is an inherent industry risk because billing systems are complex and process large volumes of data through a number of different systems and involves a combination different products, prices and price changes. Due to this complexity, we have considered revenue recognition as a key audit matter. The accounting policy for revenue recognition is set out in note 2.19 to the consolidated financial statements.

We evaluated the relevant IT systems and the design of controls and tested the operating effectiveness of controls over the capture and recording of revenue transactions; authorization of rate changes and its input to the billing systems and the change control procedures in place around those systems. In addition, we tested the reconciliation of the revenue generated and recorded in those systems to the general ledger and performed substantive tests of revenue recorded.

b) Impairment of Goodwill

As at 31 December 2016, goodwill is carried at KD 623 million which represents 20% of the total assets. The impairment test of goodwill performed by the management is significant to our audit because the assessment of the recoverable amount of goodwill under the value-in-use basis is complex and requires considerable judgment on the part of management. Estimates of future cash flows are based on management's views of variables such as the growth in the telecom sector, economic conditions such as the economic growth and expected inflation rates and yield. Therefore, we identified the impairment testing of goodwill as a key audit matter.

We tested the key assumptions forming the Group's value-in-use calculation including the cash flow projections and discount rate. We compared actual historical cash flows with previous forecasts and whether any differences were within an acceptable range. We assessed the overall reasonableness of the cash flow forecasts and compared the discount rate and growth rate to market data. Additionally, we analyzed the sensitivities such as the impact on the valuation if the growth rate would be decreased, or the discount rate would be increased. We also assessed

the adequacy of the Group's disclosures included in note 13 to the consolidated financial statements about those assumptions to which the outcome of the impairment test is more sensitive. The Group's policy on assessing impairment of goodwill is in note 2.12 to the consolidated financial statements.

c) Adoption of IAS 29 by South Sudanese subsidiary

The economy of the Republic of South Sudan, where the Group has a subsidiary became hyperinflationary from the beginning of the year 2016. This was based on the general price index (consumer price index) showing the cumulative three-year rate of inflation exceeding 100% at that time. The accounting policy for hyperinflationary financial reporting is given in note 2.23 to the consolidated financial statements.

The restatement of non-monetary items and historical financial information of the subsidiary in terms of the measuring unit current at the date of the statement of financial position and determination of the net monetary gain or loss is complex and requires the application of certain procedures and judgment on the part of management.

We compared the general price index used for restatement of non-monetary items, computing the net monetary gain and translation of historical financial information with the rates published by the Government of South Sudan and assessed the accuracy of the restatement and the amount of the net monetary gain.

OTHER INFORMATION

Management is responsible for other information. The other information comprises of the information included in the Annual Report of the Group for the year ended 31 December 2016. The other information does not include the consolidated financial statements and our auditor's report thereon. We obtained the report of the Company's Board of Directors prior to the date of our auditor's report and we expect to obtain the remaining sections of the Group's Annual Report for the year ended 31 December 2016 after the date of our auditor's report.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

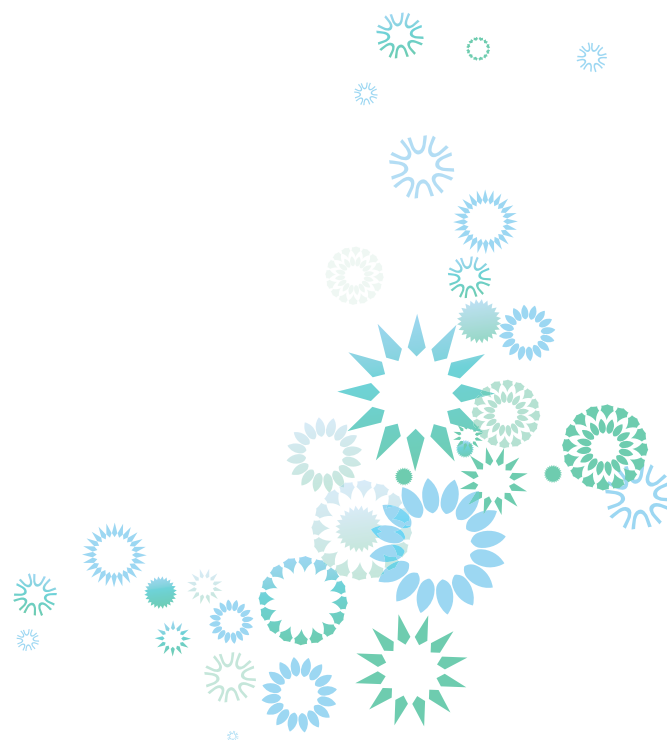
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Furthermore, in our opinion proper books of accounts have been kept by the Company and the consolidated financial statements, together with the contents of the report of the Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit and that the consolidated financial statements incorporate all the information that is required by the Companies Law No. 1 of 2016 and its Executive Regulations and by the Company's Memorandum of Incorporation and Articles of Association, as amended, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No. 1 of 2016 and its Executive Regulations or of the Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 that might have had a material effect on the business of the Company or on its consolidated financial position.



Talal Y. Al-Muzaini
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Deloitte & Touche
Al-Wazzan & Co.

Kuwait
19 February 2017

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

		2016	2015
ASSETS	NOTE	KD '000	
Current assets			
Cash and bank balances	4	208,752	359,799
Trade and other receivables	5	450,386	406,581
Inventories	6	16,418	27,593
Investment securities at fair value through profit or loss	7	964	1,164
		676,520	795,137
Non-current assets			
Investment securities available for sale	7	22,134	26,598
Investments in associates and joint ventures	8,9	190,396	219,902
Dues from associates	10	381,661	350,673
Other assets	11	15,598	15,880
Property and equipment	12	798,156	901,679
Intangible assets and goodwill	13	1,007,237	1,185,312
		2,415,182	2,700,044
Total Assets		3,091,702	3,495,181
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	14	570,920	761,758
Due to banks	15	219,154	213,310
		790,074	975,068
Non-current liabilities			
Due to banks	15	830,193	751,569
Other non-current liabilities	16	48,953	40,454
		879,146	792,023
Equity			
Attributable to Company's shareholders			
Share capital	17	432,706	432,706
Share premium		1,707,164	1,707,164
Treasury shares	17	(567,834)	(567,834)
Legal reserve	17	216,353	216,353
Foreign currency translation reserve	17	(1,100,094)	(756,643)
Treasury shares reserve		1,967	1,967
Investment fair valuation reserve		3,484	(1,446)
Hedge reserve		(120)	(216)
Retained earnings		571,503	510,641
		1,265,129	1,542,692
Non-controlling interests		157,353	185,398
Total equity		1,422,482	1,728,090
Total Liabilities and Equity		3,091,702	3,495,181

The accompanying notes are an integral part of these consolidated financial statements.

Asaad Ahmed Al Banwan
Chairman

M. Scott Gegenheimer
Chief Executive Officer

CONSOLIDATED STATEMENT OF PROFIT OR LOSS - YEAR ENDED 31 DECEMBER 2016

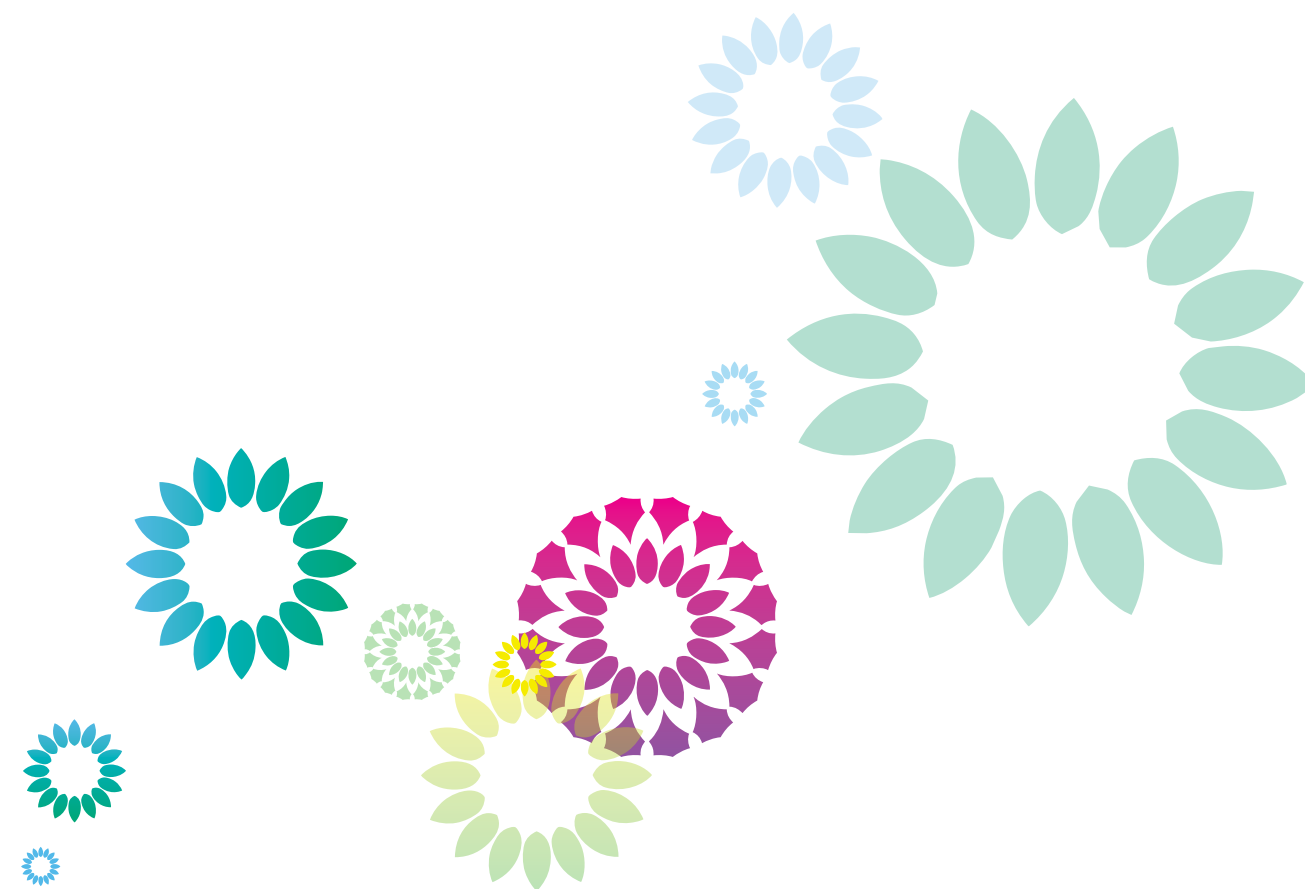
		2016	2015
	NOTE	KD '000	
Revenue	18	1,087,774	1,137,547
Cost of sales		(266,764)	(259,945)
Gross profit		821,010	877,602
Operating and administrative expenses	19	(308,174)	(373,797)
Depreciation and amortization	12,13	(222,307)	(212,751)
Provision for impairment – trade and other receivables	5	(1,296)	(5,303)
Operating profit		289,233	285,751
Interest income		5,992	7,243
Investment income	20	(3,925)	(5,863)
Share of results of associates and joint ventures	8,9	(30,781)	(29,297)
Other income/(expenses)		(22,793)	(4,832)
Finance costs		(32,598)	(29,029)
Loss from currency revaluation		(42,044)	(22,119)
Net monetary gain	32	30,781	-
Profit before, contribution to KFAS, NLST, Zakat, income taxes and Board of Directors' remuneration		193,865	201,854
Contribution to Kuwait Foundation for Advancement of Sciences		(666)	(715)
National Labour Support Tax and Zakat	21	(6,138)	(7,231)
Income tax expenses	22	(28,051)	(27,515)
Board of Directors' remuneration		(275)	(275)
Profit for the year		158,735	166,118
Attributable to:			
Shareholders of the Company		156,702	154,314
Non-controlling interests		2,033	11,804
		158,735	166,118
Earnings per share (EPS)	23		
Basic – Fils		40	40
Diluted – Fils		40	40

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME - YEAR ENDED 31 DECEMBER 2016

	2016	2015
	KD '000	
Profit for the year	158,735	166,118
Other comprehensive income:		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translating foreign operations	(342,525)	(73,395)
Net unrealised loss on available-for-sale investments	847	(5,269)
Net loss transferred to consolidated statement of profit or loss on sale of available-for-sale investments (net of impairment losses)	4,083	2,618
Cash flow hedges	96	1,715
Total comprehensive income for the year	(178,764)	91,787
Total comprehensive income attributable to:		
Shareholders of the Company	(181,723)	73,742
Non-controlling interests	2,959	18,045
	(178,764)	91,787

The accompanying notes are an integral part of these consolidated financial statements.

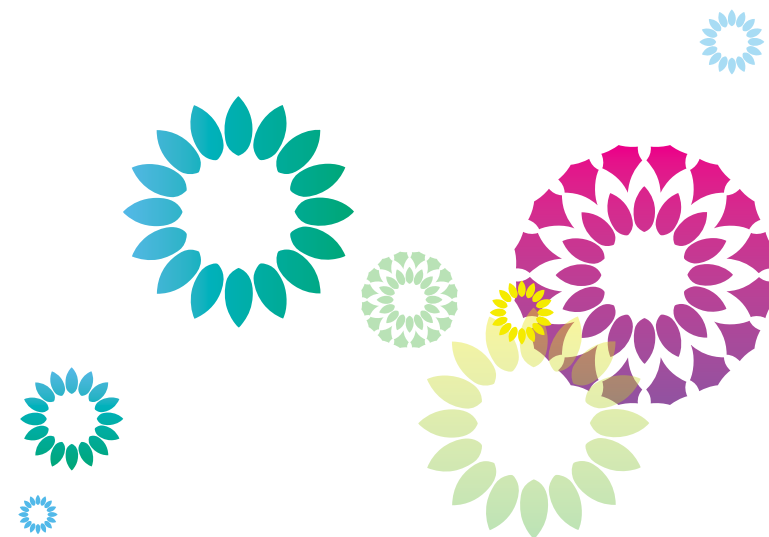


CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY - YEAR ENDED 31 DECEMBER 2016

EQUITY ATTRIBUTABLE TO COMPANY'S SHAREHOLDERS

	SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	LEGAL RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TREASURY SHARES RESERVE
KD '000						
Balance at 1 January 2016	432,706	1,707,164	(567,834)	216,353	(756,643)	1,967
Purchase of non-controlling interests	-	-	-	-	-	-
Effect of dilution of ownership interest	-	-	-	-	-	-
Cash dividends (2015)	-	-	-	-	-	-
Equity issue transaction costs	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-
Impact of initial application of IAS 29	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(343,451)	-
Balance at 31 December 2016	432,706	1,707,164	(567,834)	216,353	(1,100,094)	1,967
Balance at 1 January 2015	432,706	1,707,164	(567,834)	216,353	(677,007)	1,967
On acquisition of subsidiaries	-	-	-	-	-	-
Effect of dilution of ownership interest	-	-	-	-	-	-
Cash dividends (2014)	-	-	-	-	-	-
Equity issue transaction costs	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(79,636)	-
Balance at 31 December 2015	432,706	1,707,164	(567,834)	216,353	(756,643)	1,967

The accompanying notes are an integral part of these consolidated financial statements.



EQUITY ATTRIBUTABLE TO COMPANY'S SHAREHOLDERS

EQUITY ISSUE TRANSACTION COSTS	INVESTMENT FAIR VALUATION RESERVE	HEDGE RESERVE	RETAINED EARNINGS	NON-CONTROLLING INTERESTS	TOTAL EQUITY
KD '000					
-	(1,446)	(216)	510,641	185,398	1,728,090
-	-	-	(999)	981	(18)
-	-	-	-	-	-
-	-	-	(117,041)	(31,803)	(148,844)
(571)	-	-	-	(182)	(753)
571	-	-	(571)	-	-
-	-	-	22,771	-	22,771
-	4,930	96	156,702	2,959	(178,764)
-	3,484	(120)	571,503	157,353	1,422,482
-	1,205	(1,931)	512,780	168,566	1,793,969
-	-	-	-	690	690
-	-	-	129	106	235
-	-	-	(156,053)	(1,843)	(157,896)
(529)	-	-	-	(166)	(695)
529	-	-	(529)	-	-
-	(2,651)	1,715	154,314	18,045	91,787
-	(1,446)	(216)	510,641	185,398	1,728,090



CONSOLIDATED STATEMENT OF CASH FLOWS - YEAR ENDED 31 DECEMBER 2016

	2016	2015
	KD '000	
Cash flows from operating activities		
Profit for the year before income tax	186,786	193,633
Adjustments for:		
Depreciation and amortization	222,307	212,751
Interest income	(5,992)	(7,243)
Investment income	3,925	5,863
Share of results of associates and joint ventures	30,781	29,297
Finance costs	32,598	29,029
Loss from currency revaluation	42,044	22,119
Gain on sale of property and equipment	(129)	(290)
Net Monetary gain	(30,781)	-
Operating profit before working capital changes	481,539	485,159
Increase in trade and other receivables	(99,142)	(55,721)
Decrease/(Increase) in inventories	9,463	(11,844)
Provision used (net)	(56,124)	(3,734)
(Decrease)/increase in trade and other payables	(67,794)	44,547
Cash generated from operations	267,942	458,407
Payments:		
Income tax	(53,819)	(14,874)
Kuwait Foundation for Advancement of Sciences (KFAS)	(500)	(700)
National Labour Support Tax and Zakat	(13,869)	(3,403)
Net cash from operating activities	199,754	439,430
Cash flows from investing activities		
Deposits maturing after three months and bank balances blocked (note 4)	99,931	(8,984)
Investments in subsidiaries	(53)	(4,330)
Proceeds from sale of investment securities	5,995	3,302
Investments in securities	(1,350)	(2,368)
Acquisition of property and equipment (net)	(167,372)	(217,058)
Acquisition of intangible assets	(41,160)	(148,124)
Interest received	5,239	6,817
Dividends received	703	1,111
Net cash used in investing activities	(98,067)	(369,634)
Cash flows from financing activities		
Proceeds from bank borrowings	247,911	606,912
Repayment of bank borrowings	(169,544)	(462,320)
Loan to associates	(28,164)	(23,300)
Dividends paid	(117,840)	(155,956)
Dividends paid to non-controlling interests	(15,059)	(1,788)
Finance costs paid	(24,619)	(24,443)
Net cash used in financing activities	(107,315)	(60,895)
Net (decrease)/increase in cash and cash equivalents	(5,628)	8,901
Effects of exchange rate changes on cash and cash equivalents	(45,488)	(1,656)
Cash and cash equivalents at beginning of year	228,266	221,021
Cash and cash equivalents at end of year (note 4)	177,150	228,266

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - 31 DECEMBER 2016

1. CORPORATE INFORMATION

Mobile Telecommunications Company K.S.C.P (the "Company") is a Kuwaiti shareholding company incorporated in 1983. Its shares are traded on the Kuwait Stock Exchange. The registered office of the Company is at P.O. Box 22244, 13083 Safat, State of Kuwait.

The Company and its subsidiaries (the "Group") along with associates provide mobile telecommunication services in Kuwait and 8 other countries (31 December 2015 - Kuwait and 8 other countries) under licenses from the governments of the countries in which they operate; purchase, deliver, install, manage and maintain mobile telephone and paging systems; and invest surplus funds in investment securities.

These consolidated financial statements were authorized and approved for issue by the Board of Directors of the Company on 19 February 2017 and are subject to approval of the shareholders at their forthcoming Annual General Meeting.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These consolidated financial statements are prepared under the historical cost basis of measurement adjusted for the effects of inflation where entities operate in hyperinflationary economies and modified by the revaluation at fair value of financial assets held as "at fair value through profit or loss", "available for sale" and "derivative financial instruments". These consolidated financial statements have been presented in Kuwaiti Dinars, rounded to the nearest thousand.

The Republic of South Sudan economy became hyperinflationary in 2016. Accordingly the year 2016 results, cash flows and financial position of the Group's subsidiary in South Sudan have been expressed in terms of the measuring unit current at the reporting date. The methods used to measure the fair value and adjustments made to the account of Group's entities that operate in the hyperinflationary economies are discussed further in the accounting policies and in the respective notes.

In 2015, the Group noted that the economy of the Republic of Sudan, where the Group has subsidiaries, may be hyperinflationary from the beginning of 2015. This was based on the general price index showing the cumulative three-year rate of inflation exceeding 100% at that time. However, International Accounting Standard, IAS 29: Financial Reporting in Hyperinflationary Economies, does not establish an absolute rate at which hyperinflation is deemed to arise and states that it is a matter of judgment when restatement of

financial statements in accordance with this Standard becomes necessary. In addition, the Group noted that in the 2014 International Monetary Fund (IMF) Sudan country report, the cumulative projected three year inflation rate outlook for Sudan in 2016 to be around 57% and thus, applying IAS 29 in 2015, could entail going in and out of hyperinflation within a short period. Based on the above matters, the Group concluded that there was no definitive basis to apply IAS 29 at that time and to review it on an ongoing basis.

In 2016, the Group noted that the IMF World Economic Outlook report of April 2016 shows the consumer price inflation estimate for Sudan for the years 2016 to 2017 to be 13% and 12.3% respectively and the cumulative inflation rate as of year-end 2016 to be around 61%. Accordingly, the Group is of the opinion that the 2015 determination that there was no definitive basis to apply IAS 29 continues to be applicable.

Had IAS 29 been applied, and the opening retained earnings as at 1 January 2015 been restated, it would have been higher by approximately KD 324 million and non-monetary assets comprising of Zain Sudan's Property and Equipment, Intangible assets and Capital WIP as of that date higher by the same amount. This would have then required the Group to test the restated carrying value of its investment in Zain Sudan and the related goodwill of KD 73 million for impairment losses, if any, to be recognized in the consolidated statement of profit or loss. Even if this had resulted in goodwill being determined as fully impaired at that time, the net overall impact on the Group's consolidated statement of financial position is that net equity and the above non-monetary assets related to Zain Sudan as of 31 December 2016 would have been higher by KD 102 million (31 December 2015: KD 108 million). Furthermore, the profit for the year ended 31 December 2016 would have been lower by KD 18 million (31 December 2015: KD 37 million).

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to these consolidated financial statements are disclosed in note 32.

2.2 NEW AND REVISED ACCOUNTING STANDARDS

EFFECTIVE FOR THE CURRENT YEAR

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year except for the adoption and

application of the accounting policy for financial reporting in hyperinflationary economies as described in Note 2.23.

NEW AND REVISED IFRSs APPLIED WITH NO MATERIAL EFFECT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarifies the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the consolidated financial statements of the Group.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the income statement and statement of comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to income statement.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the income statement and statement of comprehensive income. These amendments do not have any impact on the consolidated financial statements of the Group.

STANDARDS ISSUED BUT NOT EFFECTIVE

The following IFRS and Interpretations have been issued but are not yet effective and have not been early adopted by the Group. The Group intends to adopt them when they become effective.

IFRS 9 Financial Instruments

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with an option to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this

standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The new standard introduces an 'expected credit loss' model for the measurement of the impairment of financial assets. The Group is in the process of quantifying the impact of this standard on the Group's consolidated financial statements, when adopted.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and is effective for annual periods beginning on or after 1 January 2018 with an option to early adopt. IFRS 15 specifies how and when an entity will recognize revenue as well as requires the entity to provide users of financial statements with more informative, relevant disclosures. The Standard provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The Group is currently assessing the impact of this Standard.

IFRS 16 – Leases

IFRS 16 was issued by IASB on 13 January 2016 and is effective for annual periods beginning on or after 1 January 2019. IFRS 16 supersedes IAS 17: Leases along with related IFRIC 4, SIC-15 and SIC-27 from the effective date. This new standard would establish principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The Group is currently assessing the impact of this Standard.

Adoption of other new or amended Standards is not expected to have any material effect on the financial position or financial performance of the Group. Additional disclosures will be made in the financial statements when these Standards become effective.

2.3 BUSINESS COMBINATIONS

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The consideration transferred for the acquisition is measured as the fair values of the assets transferred, equity interests issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair

values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized at the non-controlling interest's proportionate share of the acquiree's net assets.

When a business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognized in the consolidated statement of profit or loss. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably.

An indemnification received from the seller in a business combination for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability that is recognized at the acquisition date at its acquisition-date fair value is recognized as an indemnification asset at the acquisition date at its acquisition-date fair value.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

2.4 CONSOLIDATION

The Group consolidates the financial statements of the Company and subsidiaries (i.e. investees that it controls) and investees controlled by its subsidiaries.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights and potential voting rights;

The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Group until the date that control ceases.

Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of the combination. Total comprehensive income is attributed to the non-controlling

interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Company's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position and profit or loss. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of subsidiaries. Intra group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. Intragroup losses that indicate an impairment is recognized in the consolidated financial statements.

When the Company loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non-controlling interests. Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in equity is transferred to the consolidated statement of profit or loss.

2.5 FINANCIAL INSTRUMENTS

CLASSIFICATION

In the normal course of business the Group uses financial instruments, principally cash, deposits, receivables, investments, payables, due to banks and derivatives. In accordance with International Accounting Standard (IAS) 39, the Group classifies financial assets as "at fair value through profit or loss", "loans and receivables" or "available for sale". All financial liabilities are classified as "other than at fair value through profit or loss".

RECOGNITION / DERECOGNITION

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognized when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an

existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability.

All regular way purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

MEASUREMENT

Financial instruments

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are added except for those financial instruments classified as “at fair value through profit or loss”.

Financial assets at fair value through profit or loss

Financial assets classified as “at fair value through profit or loss” are divided into two sub categories: financial assets held for trading, and those designated at fair value through statement of profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented risk management or investment strategy. Derivatives are classified as “held for trading” unless they are designated as hedges and are effective hedging instruments.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using the effective yield method.

Available for sale

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the consolidated statement of comprehensive income. When the “available for sale” asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the consolidated statement of profit or loss as gains or losses.

Financial liabilities/equity

Financial liabilities “other than at fair value through profit or

loss” are subsequently measured and carried at amortized cost using the effective yield method. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Financial guarantees

Financial guarantees are subsequently measured at the higher of the amount initially recognized less any cumulative amortization and the best estimate of the present value of the amount required to settle any financial obligation arising as a result of the guarantee.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other receivables and derivatives with negative fair values (unrealised losses) are included in other payables in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for “held for trading” derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated statement of profit or loss. For hedge accounting, the Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge) or hedges of a net investment in a foreign operation (net investment hedge).

Fair value hedge

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized in ‘Other receivables’ or ‘Other payables’ and in the consolidated statement of profit or loss. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of profit or loss.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, using the effective interest rate method, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognized, the unamortised fair value adjustment is recognized immediately in the consolidated statement of profit or loss.

Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in the consolidated statement of

comprehensive income and the ineffective portion is recognized in the consolidated statement of profit or loss.

When the hedged cash flow affects the consolidated statement of profit or loss, the gain or loss on the hedging instrument is ‘recycled’ in the corresponding income or expense line of the consolidated statement of profit or loss. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in shareholders’ equity at that time remains in shareholders’ equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders’ equity is immediately transferred to the consolidated statement of profit or loss.

Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

The Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months and as a current asset or liability if less than twelve months.

IMPAIRMENT

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each statement of financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the consolidated statement of profit or loss. For “available for sale” equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

Financial assets are written off when there is no realistic prospect of recovery.

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are offset and reported on a net basis in the accompanying consolidated statement

of financial position when a legally enforceable right to set off such amounts exists and when the Group intends to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

2.6 CASH AND CASH EQUIVALENTS

Cash on hand, demand and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the consolidated statement of cash flows.

2.7 INVENTORIES

Inventories are stated at the lower of weighted average cost and net realizable value.

2.8 INVESTMENTS IN ASSOCIATES

Associates are those entities over which the Group has significant influence but not control, generally accompanying a direct or indirect shareholding of more than 20% of the voting rights. The excess of the cost of investment over the Group’s share of the net fair value of the associate’s identifiable assets and liabilities is recognised as goodwill. Goodwill on acquisition of associates is included in the carrying values of investments in associates. Investments in associates are initially recognised at cost and are subsequently accounted for by the equity method of accounting from the date of significant influence to the date it ceases.

Under the equity method, the Group recognises in the consolidated statement of profit or loss, its share of the associate’s post acquisition results of operations and in equity, its share of post acquisition movements in reserves that the associate directly recognises in equity. The cumulative post acquisition adjustments, and any impairment, are directly adjusted against the carrying value of the associate. Appropriate adjustments such as depreciation, amortisation and impairment losses are made to the Group’s share of profit or loss after acquisition to account for the effect of fair value adjustments made at the time of acquisition.

When the Group’s share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivable, the Group does not recognise further losses unless it has incurred obligations or made payments on behalf of the associate.

An assessment is made at each statement of financial position date to determine whether there is objective evidence that an associate may be impaired. If such evidence exists, it is tested for impairment as a single asset, including goodwill, by comparing its recoverable amount (being the higher of its value in use and its fair value less cost to sell) with its carrying amount. Any impairment loss is recognized in the consolidated statement of profit or loss and forms part of its carrying amount. Any impairment loss reversal is recognized in the consolidated statement of profit or loss to the extent that the recoverable amount of the associate subsequently increases.

2.9 INTERESTS IN JOINT VENTURES

A joint arrangement is a contractual arrangement that gives two or more parties joint control. Joint control is a contractually agreed sharing of control of an arrangement, which exists only when decision about the relevant activities require unanimous consent of the parties sharing control. A joint venture is a joint arrangement whereby the parties that have the joint control of the arrangement have rights to the net assets of the arrangement. The Group recognises its interests in joint ventures as an investment and accounts for it using the equity method.

2.10 PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Property and equipment are depreciated on a straight-line basis over their estimated economic useful lives, which are as follows:

	Years
Buildings and leasehold improvements	8 - 50
Cellular and other equipment	3 - 20
Aircraft	8 - 10
Furniture and fixtures	5

These assets are reviewed periodically for impairment. If there is an indication that the carrying value of an asset is greater than its recoverable amount, the asset is written down to its recoverable amount and the resultant impairment loss is taken to the consolidated statement of profit or loss. The residual value, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Assets in hyper inflationary economies are restated by applying the change in the general price indices from the date of acquisition to the current reporting date. Depreciation on these assets are based on the restated amounts.

2.11 INTANGIBLE ASSETS AND GOODWILL

Identifiable non-monetary assets acquired in a business combination and from which future benefits are expected to flow are treated as intangible assets. Intangible assets comprise of telecom license fees, customer contracts and relationships, Indefeasible Rights of Use (IRU), key money and software rights.

Intangible assets

Intangible assets which have a finite life are amortized over their useful lives. For acquired network businesses whose operations are governed by fixed term licenses, the amortisation period is determined primarily by reference to the unexpired license period and the conditions for license renewal. Telecom license fees are amortised on a straight line basis over the life of the license. Key money and software rights are amortized on a straight line basis

over a period of five years for software rights and over the lease period for operating leases. Customer contracts and relationships are amortised over a period of 4 to 5 years. To the extent handsets are provided below cost as part of the telecom service connection, it is treated as a subscriber acquisition cost and recognized as an intangible asset and amortised over the period of the contract.

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

Goodwill

Goodwill arising in a business combination is computed as the excess of the aggregate of: the consideration transferred; the non-controlling interests proportionate share in the recognized amounts of the acquiree's net identifiable assets at the acquisition date, if any; and in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Any deficit is a gain from a bargain purchase and is recognized directly in the consolidated statement of profit or loss.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to each of the cash generating units for the purpose of impairment testing. Gains and losses on disposal of an entity or a part of an entity include the carrying amount of goodwill relating to the entity or the portion sold.

2.12 IMPAIRMENT OF NON-FINANCIAL ASSETS

If there is an indication that the carrying value of non-financial assets such as property, plant and equipment or intangible assets with a definite useful life is greater than its recoverable amount, it is tested for impairment and the asset is written down to its recoverable amount. Goodwill and intangible assets with indefinite useful lives are tested, at least annually, for impairment.

The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. In that case, they are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of property, plant and equipment and intangible assets as well as goodwill.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present

value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group prepares formal four to five year plans for its businesses. These plans are used for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the four to five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata, on the basis of the carrying amount of each asset in the unit. An impairment loss is recognized immediately in the consolidated profit or loss unless the relevant assets are carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previously recognized revaluation gain.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss. That relating to goodwill cannot be reversed in a subsequent period.

2.13 FAIR VALUE MEASUREMENT

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments, fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortized cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

2.14 INCOME TAXES

Income tax payable on profits is recognized as an expense in the period in which the profits arise based on the applicable tax laws and tax rates in each jurisdiction that have been enacted or substantively enacted by the end of statement of financial position date.

Deferred income tax is provided using the liability method on all temporary differences, at the statement of financial position date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax provisions depend on whether the timing of the reversal of the temporary difference can be controlled and whether it is probable that the temporary difference will reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of statement of financial position date.

Deferred tax assets are recognized for all deductible temporary differences, including carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

2.15 PROVISIONS FOR LIABILITIES

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

2.16 POST EMPLOYMENT BENEFITS

The Group is liable to make defined contributions to State Plans and lump sum payments under defined benefit plans to employees at cessation of employment, in accordance with the laws of the place where they are deemed to be employed. The defined benefit plan is unfunded and is computed as the amount payable to employees as a result of involuntary termination on the statement of financial position date. This basis is considered to be a reliable approximation of the present value of the final obligation.

2.17 TREASURY SHARES

The cost of the Company's own shares purchased, including directly attributable costs, is classified under equity. Gains or losses arising on sale are separately disclosed under shareholders' equity and these amounts are not available for distribution. These shares are not entitled to cash dividends. The issue of bonus shares increases the number of treasury shares proportionately and reduces the average cost per share without affecting the total cost of treasury shares.

2.18 ACCOUNTING FOR LEASES

Where the Group is the lessee

OPERATING LEASES

Leases of property and equipment under which, all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

FINANCE LEASES

Leases of property and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are recognized as assets in the consolidated statement of financial position at the estimated present value of the related lease payments. Each lease payment is allocated between the liability and finance charge so as to produce a constant periodic rate of interest on the liability outstanding.

2.19 REVENUE

Revenues from operations consist of recurring revenues, such as billings to customers for monthly subscription fees, roaming, leased line and airtime usage fees, and non-recurring revenues, such as one-time connection fees, and telephone equipment and accessory sales. Recurring revenue is recognized when the related service is rendered and comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of activities. Other revenues, which arise from service contracts, sale of telephones and accessories or other services, are recognized during the period in which the services are provided or goods are delivered.

Direct costs associated with prepaid cards which includes both the cost of purchasing the cards as well as dealer margins, are recognised when incurred, i.e. upfront while the airtime costs are recognized as and when the revenue is being recognised. Prepaid income collected in advance is deferred and recognized based on actual usage or upon expiration of the usage period, whichever comes first.

Specific customer acquisition costs other than those recognised as intangible assets are charged to the consolidated statement of profit or loss when the subscriber is activated.

Interest income is recognized on a time proportion basis using the effective yield method and dividend income is recognized when the right to receive payment is established.

2.20 GOVERNMENT GRANTS

Government grants are assistance by government in the form of transfers of resources to an entity in return for past or future compliance with certain conditions relating to operating activities of the entity.

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long term assets. Other conditions may also be attached restricting the type or

location of the assets or the periods during which they are to be acquired or held. Government grants relating to assets are deducted against the carrying amount of the assets.

2.21 BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are capitalised.

2.22 FOREIGN CURRENCIES

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency. Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of profit or loss.

Translation differences on non-monetary items, such as equities classified as available for sale financial assets are included in the investment fair valuation reserve in equity.

The income and cash flow statements of foreign operations are translated into the Company's reporting currency at average exchange rates for the year and their statement of financial position are translated at exchange rates ruling at the year-end. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill, long term receivables or loans and fair value adjustments arising on business combinations) are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of profit or loss as part of the gain or loss on sale.

The results, cash flows and financial position of Group's subsidiaries and associates (Group entities) which are accounted for as entities operating in hyperinflationary economies and that have functional currencies different from the presentation currency of the Group are translated into the presentation currency of its immediate parent at rates of exchange ruling at the reporting date. As the presentation currency of the Group is that of a non-hyperinflationary economy, comparative amounts of a Group entity are not adjusted for changes in the price level or exchange rates in the current year.

2.23 FINANCIAL REPORTING IN HYPERINFLATIONARY ECONOMIES

The financial statements of Group entities whose functional currencies are the currencies of hyperinflationary economies are adjusted in terms of the measuring unit current at the end of the reporting period.

In the first period of application, the adjustments determined at the beginning of the period are recognized directly in equity as an adjustment to opening retained earnings. In subsequent periods, the prior period adjustments related to components of owners' equity and differences arising on translation of comparative amounts are accounted for in other comprehensive income.

Items in the statement of financial position not already expressed in terms of the measuring unit current at the reporting period, such as non-monetary items carried at cost or cost less depreciation, are restated by applying a general price index. The restated cost, or cost less depreciation, of each item is determined by applying to its historical cost and accumulated depreciation the change in a general price index from the date of acquisition to the end of the reporting period. An impairment loss is recognized in profit or loss if the restated amount of a non-monetary item exceeds its estimated recoverable amount.

At the beginning of the first period of application, the components of owners' equity, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Restated retained earnings are derived from all other amounts in the restated statement of financial position. At the end of the first period and in subsequent periods, all components of owners' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.

All items recognized in the income statement are restated by applying the change in the general price index from the dates when the items of income and expenses were initially earned or incurred.

Gains or losses on the net monetary position are recognized in profit or loss.

All items in the statement of cash flows are expressed in terms of the general price index at the end of the reporting period.

2.24 CONTINGENCIES

Contingent assets are not recognized as an asset until realisation becomes virtually certain. Contingent liabilities, other than those arising on acquisition of subsidiaries, are not recognized as a liability unless as a result of past events it is probable that an outflow of economic resources will be required to settle a present, legal or constructive obligation; and the amount can be reliably estimated. Contingent liabilities arising in a business combination are recognized if their fair value can be measured reliably.

3. SUBSIDIARIES AND ASSOCIATES

The principal subsidiaries and associates are:

SUBSIDIARY	COUNTRY OF INCORPORATION	2016	2015
		PERCENTAGE OF OWNERSHIP	
Zain International B.V. – “ZIBV”	The Netherlands	100%	100%
Pella Investment Company – “Pella”	Jordan	96.516%	96.516%
Zain Bahrain B.S.C - “MTCB”	Bahrain	54.78%	54.78%
Mobile Telecommunications Company Lebanon (MTC) S.A.R.L. - “MTCL”	Lebanon	100%	100%
Sudanese Mobile Telephone (Zain) Company Limited “Zain Sudan”	Sudan	100%	100%
Kuwaiti Sudanese Holding Company	Sudan	100%	100%
South Sudanese Mobile Telephone (Zain) Company Limited -“Zain South Sudan”	South Sudan	100%	100%
Al Khatem Telecoms Company –“Al Khatem”	Iraq	76%	76%
Atheer Telecom Iraq Limited – “Atheer”	Cayman Islands	76%	76%
Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat	Jordan	99.1%	99.1%
Nexgen Advisory Group FZ LLC- “Nexgen”	UAE	84.66%	60%
ASSOCIATE			
Mobile Telecommunications Company (“SMTC”)	Saudi Arabia	37.045%	37.045%
Wana Corporate S.A (associate of a joint venture, Zain Al Ajial S.A)	Morocco	15.5%	15.5%

Pella owns 100% of Jordan Mobile Telecommunications Services Co. JSC – “JMTS”.

JMTS, MTCB, Zain Sudan, Zain South Sudan and Atheer operate the cellular mobile telecommunications network in Jordan, Bahrain, Sudan, South Sudan and Iraq respectively. MTCL manages the state owned cellular mobile telecommunications network in Lebanon. Al Mouakhaa Lil Kadamat Al-Logistya Wal Al-Itisalat provides WiMAX services in Jordan.

AL KHATEM/ATHEER

The unrest in Iraq since June 2014 has had an impact on the Group’s operations and has resulted in forced shut down of or restricted access to some sites with the result that Atheer may be unable to exercise effective control over assets with a net book value of approximately KD 3.381 million. While noting the general uncertainty on this matter, the Group currently, does not expect that it could materially affect the Group’s operations or effective control over its property and equipment in the foreseeable future.

ZAIN SOUTH SUDAN

The Group provides telecom services in South Sudan through Zain South Sudan and is awaiting the issue of a formal telecom license.

FINANCIAL SUPPORT TO GROUP COMPANIES

The Group has committed to provide working capital and other financial support to certain subsidiaries including SMTC, Zain Jordan, Al Khatem and Zain South Sudan whose working capitals are in deficit. Based on business plans, the Group does not expect these conditions will have a material adverse impact on the operations of these Group companies.

4. CASH AND BANK BALANCES

Cash and bank balances include the following cash and cash equivalents:

	2016	2015
	KD '000	
Cash on hand and at banks	153,852	264,651
Short-term deposits with banks	54,608	94,519
Government certificates of deposits held by subsidiaries	292	629
	208,752	359,799
Less:		
Bank balances blocked (refer note 27)	-	(128,818)
Cash at bank under lien	(770)	(2,086)
Deposits with maturity exceeding three months	(30,540)	-
Government certificates of deposits with maturities exceeding three months held by subsidiaries	(292)	(629)
	177,150	228,266

The block on Iraqi bank balances was released during December 2016.

5. TRADE AND OTHER RECEIVABLES

	2016	2015
	KD '000	
Trade receivables:		
Customers	126,571	93,694
Distributors	7,443	9,982
Other operators (interconnect)	29,771	35,857
Roaming partners	17,058	17,887
Provision for impairment	(52,461)	(53,740)
	128,382	103,680
Other receivables:		
Accrued income	1,900	3,640
Staff	4,124	1,718
Prepayments, advances and other deposits	174,133	154,990
Others (refer note below)	144,566	143,572
Provision for impairment	(2,719)	(1,019)
	322,004	302,901
	450,386	406,581

In 2011, the Group paid US\$ 473 million to settle the guarantees provided by the Company to lending banks for loans to a founding shareholder of SMTC. The Group has been pursuing legal action for its recovery and in November 2016 the court upheld the Group’s right to recover the US\$ 473 million paid in addition to interest and costs. These amounts are secured by an agreement to transfer to the Group, the founding shareholder’s shares in SMTC, which is currently pledged to the murabaha lenders of SMTC, and the shareholder loan in SMTC owed to the founding shareholder. The Company has initiated the legal procedures necessary to enforce the arbitral award.

As of 31 December 2016, trade receivables of KD 63,096,000 (2015 - KD 37,098,000) were neither past due nor impaired. Trade receivables of KD 65,286,000 (2015 - KD 66,582,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. These trade receivables are uncollateralized and are due as follows:

	2016	2015
	KD '000	
Up to 3 months	13,364	24,236
3 – 6 months	18,856	12,841
6 – 12 months	18,911	13,155
More than 12 months	14,155	16,350
	65,286	66,582

As of 31 December 2016, trade receivables of KD 52,461,000 (2015 - KD 53,740,000) were impaired against which the Group carries a provision of KD 52,461,000 (2015 - KD 53,740,000). The individually impaired receivables mainly relate to post paid customers. It has been assessed that a portion of the impaired receivables is expected to be recovered.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2016	2015
	KD '000	
Kuwaiti dinar	69,288	51,346
US dollar	228,128	215,960
Bahraini dinar	14,944	14,297
Sudanese pound	10,526	17,759
Jordanian dinar	21,882	17,989
Iraqi Dinars	101,290	86,070
Others	4,328	3,160
	450,386	406,581

Movement of provision for impairment of trade and other receivables is as follows:

	2016	2015
	KD '000	
Opening balance - 1 January	54,759	50,172
On acquisition of a subsidiary	-	31
Write off	(2,016)	(1,571)
Charge for the year	1,296	5,303
Adjustments (net)	1,141	824
Closing balance – 31 December	55,180	54,759

6. INVENTORIES

	2016	2015
	KD '000	
Handsets and accessories	19,809	30,744
Provision for obsolescence	(3,391)	(3,151)
	16,418	27,593

7. INVESTMENT SECURITIES

	2016	2015
	KD '000	
Current investments at Fair Value through profit or loss		
Quoted equities	964	1,164
Non-current investments available for sale		
Quoted equities	13,582	17,250
Funds	6,579	7,138
Unquoted equities	1,973	2,210
	22,134	26,598

Investment securities are denominated in the following currencies:

	2016	2015
	KD '000	
Kuwaiti dinar	14,558	20,032
US dollar	3,855	3,631
Other currencies	4,685	4,099
	23,098	27,762

Available for sale investments include unlisted securities amounting to KD 1.973 million (2015 - KD 2.210 million) carried at cost less impairment since it is not possible to reliably measure their fair value.

8. INVESTMENTS IN ASSOCIATES

This represents the Group's share of investments in SMTC accounted for using the equity method.

Summarized financial information of SMTC:

	2016	2015
	KD '000	
Current assets	269,701	331,111
Non-current assets	1,896,961	1,774,626
Current liabilities	540,621	525,339
Non-current liabilities	1,334,971	1,212,441
Net asset of SMTC	291,070	367,957
Revenue	563,968	544,973
Loss	(78,804)	(77,868)
Total comprehensive income	259	4,630
Proportion Group's ownership interest in SMTC	37.045%	37.045%
Group's share of SMTC's net assets	107,827	136,310
Goodwill	12,515	12,429
Carrying amount of Group' interest in SMTC	120,342	148,739

As at 31 December 2016 the fair value of the Group's investment in SMTC, being its quoted market share price on the Saudi Stock Exchange, was KD 145.958 million (2015 – KD 146.317 million).

Goodwill arises from the acquisition in 2012 of additional 12.045% equity shares during the rights issue and capital restructuring.

The Company's shareholding and that of the other founding shareholders, in SMTC are pledged to the associate's murabaha lenders as continuing security for the payment and discharge in full by SMTC of the US\$ 2.3 billion syndicated murabaha debt that fully matures in 2018. Under the murabaha financing agreement, SMTC must also obtain prior written consent of the lenders to declare any dividend or other distribution in cash or in kind to shareholders, modify any shareholder loan agreement or to make any payment under a shareholder loan agreement.

Under an official order dated 1 October 2016, SMTC received:

- an extension of its telecom license for a further period of fifteen years to January 2047 on payment of 5% of the company's annual net profit to the government during the license extension period;
- an unified telecommunication license that allows SMTC to provide all telecommunication services;
- authorization to discuss settlement alternatives with the Ministry of Finance for amounts due to the Government.

SMTC was party to a law suit amounting to SAR 2.2 billion (KD 179.124 million) plus penalties raised by Etihad Etisalat Company (Mobily) against it, arising on the service agreement entered into by the parties in May 2008. In November 2016, the arbitration panel ordered SMTC to pay only SAR 219.464 million (KD 17.868 million) and rejecting all other claims against it. SMTC has decided not to appeal the judgement and to pay the amount of the judgement.

9. INTEREST IN A JOINT VENTURE

This represents the Group's KD 70.054 million (31 December 2015 - KD 71.163 million) interest in the joint venture, Zain Al Ajial S.A. which owns 31% of the equity shares and voting rights of Wana Corporate, (a Moroccan joint stock company which is specialized in the telecom sector in that country). The Group's share of loss for the year in the joint venture amounting to KD 1,588,000 (2015 – share of loss of KD 451,000) has been recognized in the consolidated statement of profit or loss. The carrying value of this joint venture and its results for the year are determined by Group management using the equity method based on management information provided by Wana Corporate.

10. DUES FROM ASSOCIATES

	2016	2015
	KD '000	
Loans	258,432	228,625
Others	123,229	122,048
	381,661	350,673

These amounts are due from SMTC and are subordinate to its borrowings from banks (refer note 8). The loans comprise a US\$ loan of US\$ 725.578 million (KD 221.593 million) (2015: US\$ 632.327 million - KD 191.786 million) and KD 36.839 million (2015 – KD 36.839 million) with an effective interest rate of 6.75% and 4.25% per annum over six and three months Saudi Inter-Bank Offered Rate (SIBOR) respectively. Others include management fees and the present value of the interest due on the loans.

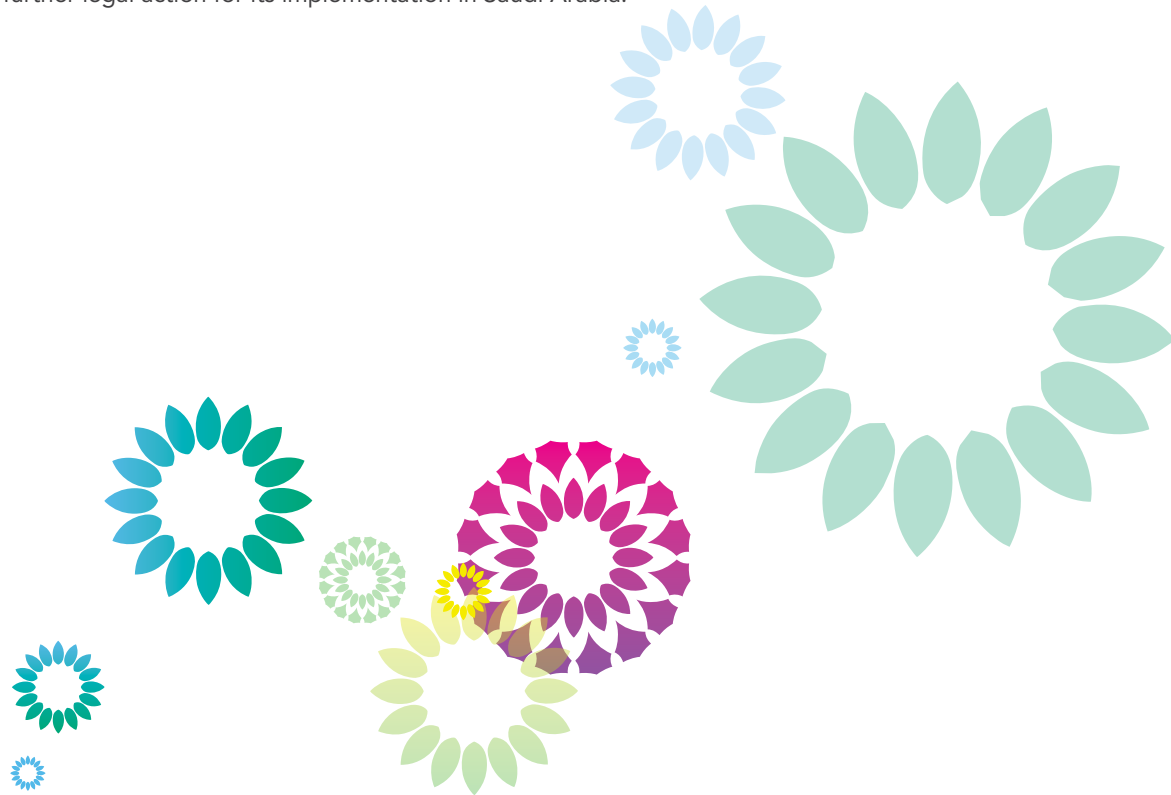
11. OTHER ASSETS

This includes US\$ 40 million; equivalent to KD 12.216 million (2015: US\$ 40 million, equivalent to KD 12.132 million) receivable from a founding shareholder in SMTC secured by an agreement to transfer to the Group, the founding shareholder's shares in SMTC. In 2013, the Group won a legal action for the recovery of that amount, and is currently pursuing further legal action for its implementation in Saudi Arabia.

12. PROPERTY AND EQUIPMENT

	LAND AND BUILDINGS AND LEASEHOLD IMPROVEMENTS	CELLULAR AND OTHER EQUIPMENT	PROJECTS IN PROGRESS	TOTAL
KD '000				
COST				
As at 31 December 2014	75,632	1,471,917	157,018	1,704,567
On acquisition of subsidiaries	-	13,309	-	13,309
Additions	11,955	101,926	124,109	237,990
Transfers	819	129,125	(129,944)	-
Disposals	(421)	(63,104)	(2,181)	(65,706)
Exchange adjustment	(4,544)	(58,654)	(8,758)	(71,956)
As at 31 December 2015	83,441	1,594,519	140,244	1,818,204
Additions	400	33,552	137,612	171,564
Transfers	2,389	106,934	(109,323)	-
Adjustments	12	(89)	-	(77)
Disposals	(16)	(20,221)	(41)	(20,278)
Exchange adjustments	(21,266)	(143,349)	(60,808)	(225,423)
As at 31 December 2016	64,960	1,571,346	107,684	1,743,990
ACCUMULATED DEPRECIATION				
As at 31 December 2014	21,518	830,459	-	851,977
On acquisition of subsidiaries	-	8,740	-	8,740
Charge for the year	1,384	115,607	-	116,991
On disposals	(52)	(43,397)	-	(43,449)
Exchange adjustments	(19)	(17,715)	-	(17,734)
As at 31 December 2015	22,831	893,694	-	916,525
Charge for the year	1,485	118,092	-	119,577
On disposals	(15)	(18,669)	-	(18,684)
Adjustments	4	(4)	-	-
Exchange adjustment	(499)	(71,085)	-	(71,584)
As at 31 December 2016	23,806	922,028	-	945,834
NET BOOK VALUE				
As at 31 December 2016	41,154	649,318	107,684	798,156
As at 31 December 2015	60,610	700,825	140,244	901,679

Exchange adjustments of 2016 includes the effect of hyperinflation.



13. INTANGIBLE ASSETS AND GOODWILL

	GOODWILL	LICENCE FEES	OTHERS	TOTAL
KD '000				
COST				
As at 31 December 2014	716,078	569,104	210,734	1,495,916
Additions	2,183	69,395	82,507	154,085
Additions as a result of business combination	-	-	89	89
On disposals/write off	-	-	(70,107)	(70,107)
Exchange adjustments	18,987	20,322	4,670	43,979
As at 31 December 2015	737,248	658,821	227,893	1,623,962
Additions	-	2,346	38,752	41,098
Adjustments	-	-	-	-
Additions as a result of business combination	-	-	-	-
On disposals/write off	-	-	(30,219)	(30,219)
Exchange adjustments	(102,587)	(14,201)	(4,482)	(121,270)
As at 31 December 2016	634,661	646,966	231,944	1,513,571
ACCUMULATED AMORTIZATION AND IMPAIRMENT LOSSES				
As at 31 December 2014	11,942	224,772	164,217	400,931
Charge for the year	-	46,406	49,354	95,760
Additions as a result of business combination	-	-	74	74
On disposals/write off	-	-	(70,091)	(70,091)
Exchange adjustments	-	8,295	3,681	11,976
As at 31 December 2015	11,942	279,473	147,235	438,650
Charge for the year	-	46,595	56,135	102,730
Additions as a result of business combination	-	-	-	-
On disposals/write off	-	-	(29,641)	(29,641)
Exchange adjustments	-	(4,922)	(483)	(5,405)
As at 31 December 2016	11,942	321,146	173,246	506,334
NET BOOK VALUE				
As at 31 December 2016	622,719	325,820	58,698	1,007,237
As at 31 December 2015	725,306	379,348	80,658	1,185,312

Goodwill has been allocated to each country of operation as that is the Cash Generating Unit (CGU) which is expected to benefit from the synergies of the business combination. It is also the lowest level at which goodwill is monitored for impairment purposes. Goodwill and the CGU to which it has been allocated and license expiry dates are as follows:

		2016	2015
	LICENSE EXPIRY DATE	KD '000	
Pella Investment Company, Jordan	January 2031	79,516	79,516
Sudanese Mobile Telephone Company Limited (Zain, Sudan)	February 2029	73,176	178,958
Atheer Telecom Iraq Limited, Cayman Islands	August 2022	461,050	457,881
Al Mouakhah Lil Khadamat Al-Logistya Wal Itisalat	December 2021	6,794	6,768
Nexgen Advisory Group Fz LLC		2,183	2,183
		622,719	725,306

Impairment testing

The Group determines whether goodwill or intangible assets with indefinite useful lives are impaired, at least on an annual basis. This requires an estimation of the recoverable amount of the CGUs to which these items are allocated. The recoverable amount is determined based on value-in-use calculations or fair value less cost to sell if that is higher.

Group management used the following approach to determine values to be assigned to the following key assumptions, in the value in use calculations:

KEY ASSUMPTION	BASIS USED TO DETERMINE VALUE TO BE ASSIGNED TO KEY ASSUMPTION
	Increase in competition expected but no significant change in market share of any CGU as a result of ongoing service quality improvements and expected growth from technology and license upgrades but excluding that from improving or enhancing the asset's performance.
Growth rate	Compounded annual growth in revenue of 4% to 19% (2015 - 4% to 10%) during the projected four or five year period. Value assigned reflects past experience and changes in economic environment.
	Cash flows beyond the four to five year period have been extrapolated using a growth rate of upto 2% (2015 – 2.5%). This growth rate does not exceed the long term average growth rate of the market in which the CGU operates.
Capital expenditure	The cash flow forecasts for capital expenditure are based on experience and include the ongoing capital expenditure required to continue rolling out networks to deliver target voice and data products and services and meeting license obligations. Capital expenditure includes cash outflows for the purchase of property, plant and equipment and other intangible assets.
Discount rate	Discount rates ranges from 13.70% to 26.40% (2015 - 15.40% to 20.90%). Discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

The Group has performed a sensitivity analysis by varying these input factors by a reasonably possible margin and assessing whether the change in input factors results in any of the goodwill allocated to appropriate cash generating units being impaired.

These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a four to five year period. The recoverable amounts so obtained were higher than the carrying amount of the CGUs.

14. TRADE AND OTHER PAYABLES

	2016	2015
	KD '000	
Trade payables & accruals	374,494	439,056
Deferred revenue	51,674	57,599
Due to roaming partners	40,356	32,410
Due to other operators (interconnect)	17,918	26,992
Dues to a regulatory authority	4,851	4,695
Taxes payable	48,841	90,516
License fee payable	-	23,278
Dividend payable	13,290	14,085
Provisions (see note below)	3,149	58,942
Directors' remuneration	275	275
Other payables	16,072	13,910
	570,920	761,758

Under the terms of the Share Sale Agreement (SSA) of Zain Africa BV, the Group had given an indemnity in respect of certain litigation brought against it in Nigeria and in Netherlands and for taxation and amounts due for unprovided litigation claims after the first closing date of the SSA. In October 2016, the Group entered into a settlement agreement by paying US\$ 128.954 million (KD 39.382 million) as a full and final settlement of this obligation except that relating to a tax claim in one jurisdiction.

15. DUE TO BANKS

	2016	2015
	KD '000	
COMPANY		
Short term loans	172,338	171,894
Long term loans	722,638	623,722
	894,976	795,616
ZAIN SUDAN		
Short term Murabaha financing	765	2,079
ZAIN – BAHRAIN		
Long term loans	7,834	14,078
ATHEER – IRAQ		
Long term loans	145,772	153,106
	1,049,347	964,879

The current and non-current amounts are as follows:

	2016	2015
	KD '000	
Current liabilities	219,154	213,310
Non-current liabilities	830,193	751,569
	1,049,347	964,879

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2016	2015
	KD '000	
US dollar	930,623	837,884
Kuwaiti dinar	110,125	110,838
Others	8,599	16,157
	1,049,347	964,879

The effective interest rate as at 31 December 2016 was 1.75% to 12.00% (2015 – 1.18% to 12.00%) per annum.

The Group is compliant with the principal covenant ratios, which include:

- consolidated net borrowings to adjusted consolidated Earnings Before Interest Tax Depreciation and Amortisation (EBITDA);
- adjusted consolidated EBITDA to adjusted consolidated net interest payable;
- equity to total assets.

COMPANY

During the year, the Company:

- drew down US\$ 430 million (KD 130.391 million) from the US\$ 800 million revolving credit facility that was availed in February 2014. As of 31 December 2016 US\$ 580 million (KD 177.132 million) (31 December 2015 - KD 127.386 million) was outstanding on this facility
- repaid loans amounting to KD 116.045 million. This includes US\$ 270 million (KD 81.449 million) from the US\$ 800 million revolving credit facility availed in February 2014.

The above facilities carry a floating interest rate of a fixed margin over one or six month London Inter-Bank Offer Rate (LIBOR) or over Central Bank Discount rate.

ZAIN – BAHRAIN

This represents balance outstanding on the long term Bahraini Dinar denominated facilities, availed in 2013, at a fixed margin over Bahrain Inter Bank Overnight rate (BIBOR). These are amortising facilities with maturities over four years.

ATHEER

Long term loans include:

- US\$ 400 million loan availed in 2011 from a syndicate of international development finance institutions and foreign banks. This is repayable in twenty four equal installments by January 2018. As of 31 December 2016, US\$ 83.080 million (KD 25.373 million) (31 December 2015 - KD 45.434 million) was outstanding from this facility;
- US\$ 300 million (KD 91.62 million) (2015 – KD 90.990 million) loan from a commercial bank that was rolled over as a long term loan maturing in December 2019.
- US\$ 55 million (KD 16.797 million) (2015- KD 16.682 million) long-term loan repayable by March 2020 availed from a commercial bank in 2015.
- US\$ 30 million (KD 9.162 million) long-term loan repayable by December 2019 availed from a commercial bank in 2016

These facilities are guaranteed by the Company and carry a floating interest rate of a fixed margin over three month LIBOR.

ZAIN SUDAN

This represents Sudanese Pounds short term financing availed from a local Islamic bank carrying an effective interest rate of 12% (2015 – 12%) per annum. This facility is secured by cash at bank of an equivalent amount (note 4).

16. OTHER NON-CURRENT LIABILITIES

	2016	2015
	KD '000	
Customer deposits	4,552	5,020
Post employment benefits	34,154	32,554
Refundable deposits and others	10,247	2,880
	48,953	40,454

17. SHARE CAPITAL AND RESERVES

	2016	2015
SHARE CAPITAL (PAR VALUE OF KD 0.100 PER SHARE)	NO. OF SHARES	NO. OF SHARES
Authorised, Issued and fully paid up	4,327,058,909	4,327,058,909

	2016	2015
TREASURY SHARES		
Number of shares	425,711,648	425,711,648
Percentage of issued shares	9.84%	9.84%
Market value (KD '000)	174,542	148,999
Cost (KD '000)	567,834	567,834

These shares were acquired based on an authorization granted to the Board of Directors by the shareholders and in accordance with Ministerial Decrees No. 10 of 1987 and No. 11 of 1988. Reserves equivalent to the cost of treasury shares held are not distributable until all these shares are disposed.

LEGAL RESERVE

In accordance with the Companies Law and the Company's Articles of Association, 10% of the profit for the year, subject to a maximum of 50% of the share capital, has to be appropriated towards legal reserve. The Companies Law and the Company's Articles of Association permits discontinuance of appropriations to legal reserve when it reaches 50% of the capital. As the legal reserve exceeded this threshold, the Company discontinued appropriations to statutory reserve. This reserve can be utilized only for distribution of a maximum dividend of 5% in years when retained earnings are inadequate for this purpose.

VOLUNTARY RESERVE

The Company's Articles of Association provide for the Board of Directors to propose appropriations to voluntary reserve up to a maximum of 50% of its share capital. During the year, the Board of Directors did not propose any transfer (2015 - Nil).

Foreign currency translation reserve

This reserve increased during the year due to a significant decline in the exchange rates of the Sudanese Pound and South Sudanese Pound.

DIVIDEND – 2015

The annual general meeting of shareholders for the year ended 31 December 2015 held on 23 March 2016 approved distribution of cash dividends of 30 fils per share for the year 2015.

PROPOSED DIVIDEND

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of 35 fils per share (2015 - 30 fils per share) to the registered shareholders as of the date of the Annual General Meeting.

18. REVENUE

	2016	2015
	KD '000	
Airtime, data and subscription	1,046,084	1,110,314
Trading income	41,690	27,233
	1,087,774	1,137,547

19. OPERATING AND ADMINISTRATIVE EXPENSES

This includes staff costs of KD 89.617 million (2015 – KD 96.002 million).

20. INVESTMENT INCOME

	2016	2015
	KD '000	
Loss on investments at fair value through profit or loss	(206)	(778)
Realized (loss)/gains from available for sale investments	(4,025)	(3,433)
Impairment loss on available for sale investments	(397)	(2,763)
Dividend income	703	1,111
	(3,925)	(5,863)

21. NATIONAL LABOUR SUPPORT TAX (NLST) AND ZAKAT

	2016	2015
	KD '000	
NLST- Kuwait	2,387	2,151
Zakat- Kuwait	1,289	859
Zakat- Sudan	2,462	4,221
	6,138	7,231

NLST and Zakat in Kuwait represents taxes payable to Kuwait's Ministry of Finance under National Labour Support Law No. 19 of 2000 and Zakat Law No. 46 of 2006 respectively.

22. INCOME TAX EXPENSES

This represents the income tax expenses of subsidiaries and withholding taxes (refer note 24).

23. EARNINGS PER SHARE

Basic and diluted earnings per share based on weighted average number of shares outstanding during the year are as follows:

	2016	2015
	KD '000	
Profit for the year	156,702	154,314
	SHARES	SHARES
Weighted average number of shares in issue	3,901,347,261	3,901,347,261
Effect of dilution	-	-
Weighted average number of shares in issue outstanding during the year adjusted for the effect of dilution	3,901,347,261	3,901,347,261
	FILS	FILS
Basic earnings per share	40	40
Diluted earnings per share	40	40

24. SEGMENT INFORMATION

The Company and its subsidiaries operate in a single business segment, telecommunications and related services. Apart from its operations in Kuwait, the Company also operates through its foreign subsidiaries in Jordan, Bahrain, Lebanon, Sudan, South Sudan and Iraq. This forms the basis of the geographical segments.

Based on the disclosure criterion, the Group has identified its telecommunications operations in Kuwait, Jordan, Sudan, Iraq and Bahrain as the basis for disclosing the segment information.



	31 DECEMBER 2016						
	KUWAIT	JORDAN	SUDAN	IRAQ	BAHRAIN	OTHERS	TOTAL
	KD '000						
Segment revenues	322,210	145,820	213,986	327,189	52,792	25,777	1,087,774
Net profit before interest and tax	89,982	45,603	32,586	10,789	3,807	25,039	207,806
Interest income	45	405	3,903	257	57	152	4,819
Finance cost	-	(4,674)	-	(12,789)	(451)	(3,450)	(21,364)
Income tax expense	-	(9,578)	(9,158)	-	-	(8,699)	(27,435)
	90,027	31,756	27,331	(1,743)	3,413	13,042	163,826
Unallocated items:							
Investment income							(3,925)
Share of results of associates and joint ventures							(30,781)
Others							29,615
Profit for the year							158,735
Segment assets including goodwill	294,759	328,894	249,820	1,121,735	95,749	136,034	2,226,991
Unallocated items:							
Investment securities at fair value through profit or loss							964
Investment securities available for sale							22,134
Investment in associates and joint ventures							190,396
Due from associates							381,661
Others							269,556
Consolidated assets							3,091,702
Segment liabilities	99,434	146,879	52,030	269,713	34,921	225,649	828,626
Due to banks	-	-	765	145,772	7,834	-	154,371
	99,434	146,879	52,795	415,485	42,755	225,649	982,997
Unallocated items:							
Due to banks							894,976
Others							(208,753)
Consolidated liabilities							1,669,220
Net consolidated assets							1,422,482
Capital expenditure incurred during the year	47,549	23,095	50,535	28,981	18,424	10,012	178,596
Unallocated							34,066
Total capital expenditure							212,662
Depreciation and amortization	66,225	26,894	27,349	73,563	16,378	10,572	220,981
Unallocated							1,326
Total depreciation and amortization							222,307

	31 DECEMBER 2015						
	KUWAIT	JORDAN	SUDAN	IRAQ	BAHRAIN	OTHERS	TOTAL
	KD '000						
Segment revenues	322,953	138,081	215,573	366,470	57,475	36,995	1,137,547
Net profit before interest and tax	94,319	53,422	51,202	52,518	4,659	(7,742)	248,378
Interest income	1	669	2,211	39	28	164	3,112
Finance cost	-	(2,621)	-	(12,768)	(575)	(2,503)	(18,467)
Income tax expense	-	(14,708)	(4,359)	(3,245)	-	(4,284)	(26,596)
	94,320	36,762	49,054	36,544	4,112	(14,365)	206,427
Unallocated items:							
Investment income							(5,863)
Share of results of associates and joint ventures							(29,297)
Others							(5,149)
Profit for the year							166,118
Segment assets including goodwill	294,862	343,408	543,886	1,226,360	94,767	73,290	2,576,573
Unallocated items:							
Investment securities at fair value through profit or loss							1,164
Investment securities available for sale							26,598
Investment in associates and joint ventures							219,902
Due from associates							350,673
Others							320,271
Consolidated assets							3,495,181
Segment liabilities	113,492	157,189	75,204	244,560	29,904	180,533	800,882
Due to banks	-	-	2,079	153,106	14,078	-	169,263
	113,492	157,189	77,283	397,666	43,982	180,533	970,145
Unallocated items:							
Due to banks							795,616
Others							1,330
Consolidated liabilities							1,767,091
Net consolidated assets							1,728,090
Capital expenditure incurred during the year	99,520	25,946	71,328	133,077	17,775	14,767	362,413
Unallocated							29,662
Total capital expenditure							392,075
Depreciation and amortization	59,412	22,620	24,997	68,002	17,927	18,398	211,356
Unallocated							1,395
Total depreciation and amortization							212,751

25. SUBSIDIARIES WITH SIGNIFICANT NON-CONTROLLING INTERESTS

The summarized financial information for the Group's subsidiaries that have significant non-controlling interests is set out below.

	AL KHATEM, IRAQ		ZAIN BAHRAIN	
	2016	2015	2016	2015
	KD '000			
Current assets	184,752	251,043	24,304	25,734
Non-current assets	765,863	805,374	71,446	69,034
Current liabilities	(269,610)	(241,286)	(40,991)	(35,956)
Non-current liabilities	(145,875)	(156,380)	(1,763)	(8,026)
Equity attributable to:				
- Owners of the Company	406,673	500,618	29,032	27,821
- Non-controlling interests	128,457	158,133	23,964	22,965
Revenue	327,189	366,470	52,792	57,475
(Loss)/Profit for the year	(1,743)	36,544	3,413	4,112
Other comprehensive income	-	-	-	-
Total comprehensive income	(1,743)	36,544	3,413	4,112
Total comprehensive income attributable to:				
- Company's shareholders	(1,325)	27,772	1,870	2,253
- Non-controlling interests	(418)	8,772	1,543	1,859
	(1,743)	36,544	3,413	4,112
Cash dividend paid to Non-controlling Interests	(13,148)	-	(644)	(631)
Net cash inflow from operating activities	71,622	130,507	23,607	25,708
Net cash inflow/(outflow) from investing activities	100,887	(128,529)	(17,368)	(16,180)
Net cash outflow from financing activities	(120,668)	(10,135)	(8,194)	(5,629)
Net increase/(decrease) in cash flows	51,841	(8,157)	(1,955)	3,899

26. RELATED PARTY TRANSACTIONS

The Group has entered into transactions with related parties on terms approved by management. Transactions and balances with related parties (in addition to those disclosed in other notes) are as follows:

	2016	2015
	KD '000	
Key management compensation		
Salaries and other short term employee benefits	2,892	2,917
Post-employment benefits	755	849

27. COMMITMENTS AND CONTINGENCIES

	2016	2015
	KD '000	
Capital commitments	46,021	77,999
Capital commitments – share of associates	57,773	80,771
Uncalled share capital of investee companies	2,430	11,815
Letters of guarantee	456,800	470,905

The above includes guarantees amounting to KD 405.615 million (2015 - KD 419.851 million) relating to loans availed by SMTC.

The Company is a guarantor for credit facilities amounting to KD 10.677 million (2015 – KD 10.604 million) granted to a founding shareholder in SMTC. The Company believes that the collaterals provided by the founding shareholder to the bank, covers the credit facilities.

PENALTIES AND FEE CLAIMS IN IRAQ

In 2011, the Iraqi Telecom Regulatory Authority, the Communications and Media Commission (CMC) claimed a total amount of US\$ 262 million (KD 80.015 million) from Atheer, citing non-compliance with certain license terms. These claims were resolved in favor of Atheer during the second quarter of 2015. However, in March 2016, the Executive Director of the CMC filed a complaint with the Hearing Panel of the CMC claiming US\$ 100 million (KD 30.54 million) relating to the matter which had been ruled in favor of Atheer by the Appeals Board of the CMC on three previous occasions. On 13 July 2016, the Hearing Panel of the CMC issued a decision in favor of CMC. On 8 September 2016, Atheer filed an appeal against this decision with the CMC Appellate Panel. On 15 January 2017, the CMC Appellate Panel issued a decision in favor of CMC. Atheer intends to challenge the decision of the CMC Appellate Panel in the Court of First Instance. Based on the report of its attorneys, the Group believes that the prospects of resolving this matter is in its favor.

On 30 May 2016, the Director General of the CMC sent a letter to Atheer requesting that Atheer pay approximately US\$ 61 million (KD 18.629 million) in spectrum fees for the period commencing from 2010. CPA Order number 65 (establishing the CMC) and the License Agreement between Atheer and the CMC (dated 31 August 2007) clearly state that any fees that are assessed on Atheer cannot be backdated, and are required to be clearly stipulated to Atheer ahead of the period of their imposition and comply with international laws. In addition, the CMC Appeals Board had in the past decided the procedures for establishing such spectrum fees and the decision of the Director General on 30 May 2016 is in violation of the decision of the CMC Appeals Board. Accordingly, Atheer appealed this decision to the CMC Appeals Board on 28 June 2016. The CMC Appeals Board issued a decision against Atheer on 9 November 2016 rejecting Atheer's Appeal. On 15 December 2016, Atheer filed a suit before the Court of First Instance in Baghdad challenging the legality of the decision to unilaterally impose the spectrum fees and to apply such decision retroactively. Atheer's challenges include contractual, legal and constitutional grounds. On the basis of the report of its attorneys, the Group believes that Atheer will prevail in this matter.

INCOME AND CAPITAL GAINS TAXES IN IRAQ

In November 2016, Atheer signed an agreement with Iraq's Ministry of Finance as follows:

- In connection with the additional corporate income tax for the years 2004 to 2010 of US \$ 244 million (KD 74.518 million) claimed by the Iraq General Commission for Taxes, Atheer

would have the right to submit its objection to the income tax claimed by the Income Tax Authority for the years 2004 to 2010, and pay 25% of the amount claimed and the balance US\$ 173 million (KD 52.834 million) in fifty equal monthly instalments from December 2016, net of amounts already paid.

- Atheer to settle the capital gains tax claim for US\$ 93 million (KD 28.402 million) which is 50% of the original claim based on Iraq's Council of Ministers approval in November 2016.

- The block on Atheer's bank accounts and the lien on part of Group's shares in Al Khatem would be released.

Atheer paid the amounts agreed in December 2016 and secured the release of the block on its bank accounts and the lien on the Group's shares in Al Khatem. Atheer submitted its appeal against the US\$ 244 million (KD 74.518 million) tax claim in November 2016 objecting to the full amount of the claim. For that portion of the taxes paid related to Iraqna the Group is legally pursuing its contractual right to recover US\$ 60 million (KD 18.324 million) plus interest and other costs from Orascom Telecom Iraq Corp. Ltd from whom Iraqna was acquired.

As of 31 December 2016, Atheer has an obligation to pay the balance of US\$ 169 million (KD 51.613 million) in forty nine instalments. Based on the report of its attorneys, Atheer management expects a favorable outcome to the appeal submitted in November 2016.

Pella is a defendant in lawsuits amounting to KD 8.893 million (31 December 2015 – KD 8.749 million). Based on the report of its attorneys, the Group expects the outcome of these proceedings to be favorable to Pella.

Pella has initiated legal proceedings against the claim by regulatory authorities of KD 9.622 million (2015 - KD 9.556 million) for the years 2002 - 2005 on the grounds that it has already paid the amount that it was obligated to pay for those years. Based on the report of its attorneys, the Group expects the outcome to be favorable to Pella.

Pella has also initiated legal proceedings against the regulatory authorities claiming refund of excess license fee paid amounting to KD 11.780 million (2015 - KD 11.698 million) of earlier years.

In addition, legal proceedings have been initiated by and against the Group in some jurisdictions. On the basis of information currently available and the advice of the legal advisors, Group management is of the opinion that the outcome of these proceedings is unlikely to have a material adverse effect on the consolidated financial position or the consolidated performance of the Group.

OPERATING LEASE COMMITMENTS – GROUP AS LESSEE

The Group leases various branches, offices and transmission sites under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016	2015
	KD '000	
Not later than 1 year	13,521	14,588
Later than 1 year and no later than 5 years	46,375	43,181
Later than 5 years	52,434	49,746
	112,330	107,515

28. FINANCIAL RISK MANAGEMENT

The Group's financial assets have been categorized as follows:

	LOANS AND RECEIVABLES	ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	AVAILABLE FOR SALE
	KD '000		
31 December 2016			
Cash and bank balances	208,752	-	-
Trade and other receivables	449,760	-	-
Investment securities	-	964	22,134
Dues from associates	381,661	-	-
Other assets	12,216	-	-
	1,052,389	964	22,134
31 December 2015			
Cash and bank balances	359,799	-	-
Trade and other receivables	406,278	-	-
Investment securities	-	1,164	26,598
Dues from associates	350,673	-	-
Other assets	12,132	-	-
	1,128,882	1,164	26,598

All financial liabilities as of 31 December 2016 and 31 December 2015 are categorized as 'other than at fair value through profit or loss'.

FINANCIAL RISK FACTORS

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. The Board of Directors has the overall responsibility for the establishment and oversight of the Group's risk management framework and developing and monitoring the risk management policies in close co-operation with the Group's operating units. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and Group's activities. The Group through its training and management standards and procedures aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. The Group's Board Committee oversees how management monitors compliance with the risk management policies and procedures and reviews adequacy of the risk management framework in relation to the risks faced by the Group. The Board Committee is assisted in its oversight role by the Internal audit and the Group risk management department. The significant risks that the Group is exposed to are discussed below:

(a) Market risk

(i) Foreign exchange risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Group management has set up a policy that requires Group companies to manage their foreign exchange risk against their functional currency. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group is primarily exposed to foreign currency risk as a result of foreign exchange gains/losses on translation of foreign currency denominated assets and liabilities such as trade and other receivables, trade and other payables and due to banks. The impact on the post tax consolidated profit arising from a 10% weakening/ strengthening of the functional currency against the major currencies to which the Group is exposed is given below:

	2016	2015
CURRENCY	KD '000	
US Dollar	6,533	14,756
Euro	56	65
SAR	205	192

(ii) Equity price risk

This is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market. The Group is exposed to equity securities price risk because of investments held by the Group and classified in the consolidated statement of financial position either as 'available for sale' or 'at fair value through profit or loss'. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

Group's investments are primarily quoted on the Kuwait Stock Exchange. The effect on the consolidated profit as a result of changes in fair value of equity instruments classified as 'at fair value through profit or loss' and the effect on equity of equity instruments classified as 'available for sale' arising from a 5% increase/ decrease in equity market index, with all other variables held constant is as follows:

	2016		2015	
MARKET INDICES	IMPACT ON NET PROFIT	EFFECT ON EQUITY	IMPACT ON NET PROFIT	EFFECT ON EQUITY
	KD '000			
Kuwait Stock Exchange	±48	±871	±58	±1,106

Profit for the year would increase/decrease as a result of gains/losses on equity securities classified as 'at fair value through profit or loss'. Equity would increase/decrease as a result of gains/losses on equity securities classified as 'available for sale'.

(iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from short-term bank deposits and bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings at variable rates are denominated mainly in US Dollars.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of profit or loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. The Group manages interest rate risk by monitoring interest rate movements and by using Interest Rate Swaps to hedge interest rate risk exposures.

At 31 December 2016, if interest rates at that date had been 50 basis points higher/lower with all other variables held constant, consolidated profit for the year would have been lower/higher by KD 4,884,000 (2015 - KD 4,909,000).

b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group to credit risk, consist principally of fixed and short notice bank deposits, bonds, trade and other receivables and loans to associates. The Group manages this risk by

placing fixed and short term bank deposits with high credit rating financial institutions. Credit risk with respect to trade receivables is limited due to dispersion across large number of customers and by using experienced collection agencies. The Group considers the credit quality of amounts that are neither past due nor impaired to be high.

For more information refer to Notes 4, 5, 10 and 11.

(c) *Liquidity risk*

Liquidity risk is the risk that the Group may not be able to meet its funding requirements. The Group manages this risk by maintaining sufficient cash and marketable securities, availability of funding from committed credit facilities and its ability to close out market positions on short notice. The Company's Board of Directors increases capital or borrowings based on ongoing review of funding requirements.

The Group has committed to provide working capital and other financial support to some of its affiliates (refer note 3). Other than cash and bank balance of KD 29.744 million (2015 - KD 77.277 million) equivalent held in Sudanese pounds and KD 0.972 million (2015 - KD 2.050 million) held in South Sudanese pounds, all other cash and bank balance are maintained in freely convertible currencies.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	LESS THAN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 5 YEARS	OVER 5 YEARS
KD '000				
At 31 December 2016				
Bank borrowings	242,363	265,341	453,765	145,296
Trade and other payables	518,150	204	510	382
Customer deposits	-	698	-	3,854
Refundable deposits and others	-	85	-	-
At 31 December 2015				
Bank borrowings	232,493	362,697	306,762	123,030
Trade and other payables	702,967	203	507	482
Customer deposits	-	1,124	3,896	-
Refundable deposits and others	-	84	-	-

29. DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business, the Group uses derivative financial instruments to manage its exposure to fluctuations in interest and foreign exchange rates. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts analysed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either market or credit risk. All derivative contracts are fair valued based on observable market data.

At 31 December 2016						
	NOTIONAL AMOUNTS BY TERM TO MATURITY					
	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOTIONAL AMOUNT	WITHIN 3 MONTHS	3 -12 MONTHS	OVER 1 YEAR
KD '000						
Derivatives held for hedging:						
Cash flow hedges						
Profit rate swaps - share of an associate	-	120	130,161	-	-	130,161

At 31 December 2015						
	NOTIONAL AMOUNTS BY TERM TO MATURITY					
	POSITIVE FAIR VALUE	NEGATIVE FAIR VALUE	NOTIONAL AMOUNT	WITHIN 3 MONTHS	3 -12 MONTHS	OVER 1 YEAR
KD '000						
Derivatives held for hedging:						
Cash flow hedges						
Profit rate swaps - share of an associate	-	216	129,234	-	-	129,234

Interest rate swaps are contractual agreements between two parties to exchange interest based on notional value in a single currency for a fixed period of time. The Group uses interest rate swaps to hedge changes in interest rate risk arising from floating rate borrowings.

30. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide return on investment to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In managing capital, the Group considers the financial covenants in various loan agreements that require the Group to maintain specific levels of debt-equity and leverage ratios.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

The gearing ratios at the consolidated statement of financial position dates were as follows:

	2016	2015
KD '000		
Total borrowings	1,049,347	964,879
Less: Cash and bank balances (refer note 4)	(208,752)	(359,799)
Net debt	840,595	605,080
Total equity	1,422,482	1,728,090
Total capital	2,263,077	2,333,170
Gearing ratio	37%	26%

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value hierarchy of the Group's financial instruments is as follows:

31 December 2016	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
KD '000				
Financial assets at fair value:				
Investments at fair value through profit or loss	964	-	-	964
Available for sale investments	13,581	6,580	-	20,161
Total assets	14,545	6,580	-	21,125
31 December 2015	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
KD '000				
Financial assets at fair value:				
Investments at fair value through profit or loss	1,164	-	-	1,164
Available for sale investments	17,250	7,138	-	24,388
Total assets	18,414	7,138	-	25,552

Available for sale investments include unlisted securities amounting to KD 1.973 million (31 December 2015 – KD 2.210 million) carried at cost less impairment since it is not possible to reliably measure their fair value.

Fair values of the financial instruments carried at amortized cost approximate their carrying value. This is based on level 3 inputs, with the discount rate that reflects the credit risk of counterparties, being the most significant input.

32. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

In accordance with the accounting policies contained in IFRS and adopted by the Group, management makes the following judgments and estimations that may significantly affect amounts reported in these consolidated financial statements.

JUDGMENTS

Business combinations

To allocate the cost of a business combination management exercises significant judgment to determine identifiable assets and liabilities and contingent liabilities whose fair value can be reliably measured, to determine provisional values on initial accounting and final values of a business combination and to determine the amount of goodwill and the Cash Generating Unit to which it should be allocated.

Classification of investments

On acquisition of an investment, management has to decide whether it should be classified as “at fair value through profit or loss”, “available for sale” or as “loans and receivables”. In making that judgment the Group considers the primary purpose for which it is acquired and how it intends to manage and report its performance. Such judgment determines whether it is subsequently measured at cost or at fair value and if the changes in fair value of instruments are reported in the statement of profit or loss or directly in equity.

Impairment

When there is a significant or prolonged decline in the value of an “available for sale” quoted investment security management uses objective evidence to judge if it may be impaired. At each statement of financial position date, management assesses, whether there is any indication that non-financial assets may be impaired. The determination of impairment requires considerable judgment and involves evaluating factors including, industry and market conditions.

Contingent liabilities/liabilities

Contingent liabilities are potential liabilities that arise from past events 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 entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities or litigation is based on management’s judgment.

HYPERINFLATION

The Group exercises significant judgement in determining the onset of hyperinflation in countries in which it operates and whether the functional currency of its subsidiaries, associates or joint ventures is the currency of a hyperinflationary economy.

Various characteristics of the economic environment of each country are taken into account. These characteristics include, but are not limited to, whether:

- the general population prefers to keep its wealth in non-monetary assets or in a relatively stable foreign currency;
- prices are quoted in a relatively stable foreign currency;
- sales or purchase prices take expected losses of purchasing power during a short credit period into account;
- interest rates, wages and prices are linked to a price index; and
- the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Management exercises judgement as to when a restatement of the financial statements of a Group entity becomes necessary. Following management's assessment, the Group's subsidiary in South Sudan have been accounted for as an entity operating in hyperinflationary economy. The results, cash flows and financial positions of Zain South Sudan have been expressed in terms of the measuring units current at the reporting date.

The general price indices used in adjusting the results, cash flows and the financial position of Zain South Sudan set out below is based on the Consumer Price Index (CPI) published by South Sudan Bureau for Statistics:

	INDEX	CONVERSION FACTOR
31 December 2016	2,068	1
31 December 2015	357	6
31 December 2014	170	12
31 December 2013	154	13
31 December 2012	170	12

SOURCES OF ESTIMATION UNCERTAINTY

Fair values - unquoted equity investments and business combinations

The valuation techniques for unquoted equity investments and identifiable assets, liabilities and contingent liabilities arising in a business combination make use of estimates such as future cash flows, discount factors, yield curves, current market prices adjusted for market, credit and model risks and related costs and other valuation techniques commonly used by market participants where appropriate.

Accounts receivable

The Group estimates an allowance for doubtful receivables based on past collection history and expected cash flows from debts that are overdue.

Tangible and intangible assets

The Group estimates useful lives and residual values of tangible assets and intangible assets with definite useful lives. Changes in technology or intended period of use of these assets as well as changes in business prospects or economic industry factors may cause the estimate useful of life of these assets to change.

Taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes a liability for anticipated taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

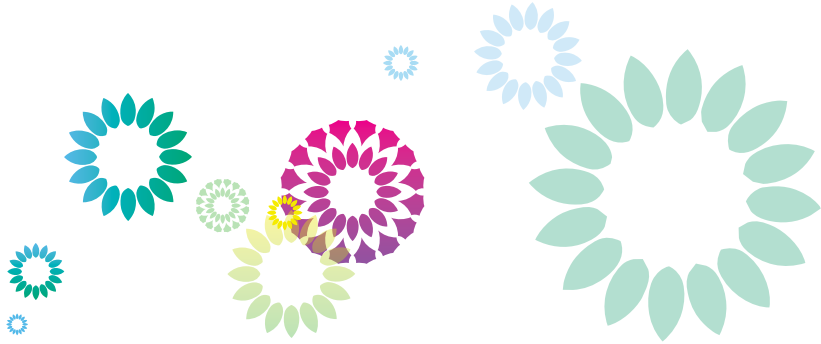
Any changes in the estimates and assumptions used as well as the use of different, but equally reasonable estimates and assumptions may have an impact on the carrying values of the deferred tax assets.

Impairment of non-financial assets

The Group annually tests non-financial assets for impairment to determine their recoverable amounts based on value-in-use calculations or at fair value less costs to sell. The value in use includes estimates on growth rates of future cash flows, number of years used in the cash flow model and the discount rates. The fair value less cost to sell estimate is based on recent/intended market transactions and the related EBITDA multiples used in such transactions.

33. Comparative figures

Certain prior year amounts have been reclassified to conform to current year presentation with no effect on net profit or equity.



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