Zain Group

H1 2019

Earnings Conference Call

Aug 1, 2019

Chaired by:
Omar Maher
EFG

Date: 1st August 2019

Ref:

M/S. Boursa Kuwait

State of Kuwait

Dear Sirs,

Subject: Zain's Company Analyst / Investor minutes of conference – Q2 2019

As per article No. (8-4-2) "Continuing Obligations in the Premier Market" of Boursa Kuwait Rule Book issued as per decision No. (1) for year 2018, and since Zain has been classified in the "Premier Market".

We would like to advise you that quarterly Analyst / Investor Conference was placed through "**Conference call**" at 2:00 pm local time on Thursday 1/8/2019.

Attached: the minutes of the Conference mentioned above and the Investor presentation (Q2-2019).

Sincerely yours,

التاريخ: 1 أغسطس 2019

المرجع: 2589

السادة/ بورصة الكويت المحترمين

دولة الكويت

تحية طيبة وبعد،،،

الموضوع: محضر مؤتمر المحللين/ المستثمرين لشركة الاتصالات المتنقلة – زين للربع الثاني لعام 2019

عملاً بأحكام المادة رقم (8-4-2) "الإلتزامات المستمرة للسوق الأول" من قواعد البورصة الصادرة بموجب القرار رقم (1) لسنة 2018، وحيث أن شركة زين تم تصنيفها ضمن مجموعة "السوق الأول".

يرجى الإحاطة بأن مؤتمر المحللين / المستثمرين قد إنعقد عن طريق اتصال مباشر في تمام الساعة الثانية بعد ظهر يوم الخميس الموافق 2019/8/1 (وفق التوقيت المحلي).

مرفق طيه محضر المؤتمر المذكور أعلاه وإستعراض المستثمرين عن الربع الثاني لعام 2019.

وتفضلوا بقبول فائق الاحترام والتقدير ،،،

محمد عبدال عبدال

الرئيس التنفيذى للاتصالات

Mohammad Abdal Abdal

Chief Communications Officer

شركة الاتصالات المتنقلة زين (ش.م.ك.ع)

Mobile Telecommunication Co. K.S.C.P.

Zain Group Q2 2019 Earnings Call Transcript

Thursday 1st August 2019

2:00 PM Kuwait Time

Zain Group Executive Management:

Scott Gegenheimer - Group Chief Executive Officer - Operations
Mohammad Abdal - Group Chief Communications Officer
Mohammed Shereef - Group Executive Finance Director
Aram Dehyan - Group Investor Relations Senior Manager

Moderator:

Omar Maher, EFG Hermes

Operator:
Good afternoon ladies and gentlemen, thank you for standing by. Welcome to today's Zain Group's Second Quarter 2019 Results Conference Call. At this time, all participants are in listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, you will need to press star-one on your telephone and wait for your name to be announced. I must advise you that this conference is being recorded today, Thursday, 1st of August 2019.

I would now like to hand the conference over to your first speaker today, Omar Maher. Thank you, please go ahead

Omar Maher:
Greetings ladies and gentlemen, this is Omar from EFG and I would like to welcome you all to the Zain Group's Second Quarter 2019 Results Conference Call. It is my pleasure to host Zain Group senior management today on the call. By now you should have received the company's presentation and earnings release for the second quarter and detailed financials which have all been uploaded on the Group's website.

Now without further delay, I will hand the call to Mohammad Abdal, Zain Group's Chief Communications Officer. Thank you

Mohammad Abdal:
Thank you, Omar. And welcome everyone to Zain's Q2 2019 earnings conference call. With me today Scott Gegenheimer our Group CEO of Operations and Mohammed Shereef, Group Executive Finance Director, as our Group CFO Ossama Matta could not make it today due to some last-minute urgent matters. A quick introduction, Mohammed Shereef has been with Zain since 1993 and involved in every financial aspect of the Group and operations.

In a moment, we will take you through the IR presentation which has been posted earlier today on our corporate website, and after that we're happy to answer any question you may have.

During this call, we will be making forward-looking statements which are predictions, projections OR other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties.

Please refer to our detailed cautionary statement found in slide number 2.

With that, I will now turn the call over to Scott.

Scott Gegenheimer:
Thanks, Mohammad. Good afternoon to everyone and thanks for joining us on today's call.

As previously shared, we are pleased that our strategic programs have gained significant traction and are delivering excellent results. We have now concluded the major part of the turn-around of Zain KSA and in other key markets, and it's important to note that we have a clear strategy to drive the business forward. We will continue our active regulatory engagement across the group, drive our digital transformation initiatives, including the expansion of our group API program, our focus on B2B and fixed-play over fibre as well as data monetization.

The strong quarterly results are underpinned by the consolidation of Zain KSA and it's worth noting that in local terms, we are showing revenue growth in 5 Opcos and positive EBITDA and net income growth in all our key markets.

We have always set out to be innovators and have now commercially launched 5G in Kuwait, and the take-up is going well. Zain KSA will follow shortly, and I will provide further context when I present the highlights.

Let me start on page 6 of the IR presentation. Our Group customer base increased by 4% Y-o-Y to reach 49.2 million customers at the end of the quarter, mainly due to 1.2 m additions in Sudan and 600,000 in Iraq.

For the 2nd quarter of 2019, Zain Group recorded consolidated revenues of USD 1.3 billion, up 65% Y-o-Y. EBITDA for the quarter reached USD 582 million, up 106% Y-o-Y, reflecting an EBITDA margin of 43.5%. Net income for the quarter amounted to USD 165 million, up 10% Y-o-Y reflecting earnings per share of 12 Fils (USD 0.04).

This performance was underpinned by the consolidation of Zain KSA, which resulted in an additional USD 549 million in revenue and USD 252 million in EBITDA during the second quarter.

Unfortunately, the Sudan **currency translation** impact for the second quarter cost the company USD 46 million on revenues, USD 19 million on EBITDA and USD 6 million on net income, predominantly due to 38% currency devaluation in Sudan from an average of 28.1 in Q2-18 to 45.6 in Q2-19 (SDG / USD).

For the first six months of 2019, the Group's consolidated revenues were up 61% to USD 2.7 billion. EBITDA for the period reached USD 1.2 billion, up 109% Y-o-Y, reflecting an EBITDA margin of 44%. Consolidated net income increased 13% Y-o-Y to reach USD 321 million. Earnings per share for the half-year stood at 22 Fils (USD 0.07).

This performance was underpinned by the consolidation of Zain KSA, which resulted in an additional USD 1,109 million in revenue and USD 507 million in EBITDA during the first six months of 2019.

For H1 2019, **foreign currency** translation impact, predominantly due to the 43% currency devaluation in Sudan from an average of 26.5 (SDG / USD), in H1 2018 to 46.5 in H1 2019 cost the company USD 101 million in revenue, USD 44 million in EBITDA and USD 15 million in net income.

Moving on to Capex, the Group CAPEX for the six months (including Zain KSA) reached USD 214 million, accounting for 8% of the total Group revenue. Mohammed will provide the country breakdown of the spend that includes 4G expansion and 5G rollouts in key markets.

Group **data revenues** (excluding SMS and VAS) increased 114% Y-o-Y for the first-half, representing 36% of the Group's consolidated revenues. Again, it should be noted that the substantial growth percentage is predominantly due to the consolidation of Zain KSA results, with substantial investments in network upgrades and expansion and growth in Enterprise data related revenues contributing to this growth.

The major relevant highlights in Q2 2019 were:

- **Kuwait:**
  - As I mentioned, we have commercially launched 5G, we are focusing on mainly on Fixed wireless and demand for the service is robust

- Our focus on B2B and value management has played a key part in delivering these excellent results.
- Regarding Tower deal, IHS has secured a licence to operate tower company services in Kuwait and we expect the tower deal to close before year end.
- **In mid-July,** the regulator has launched a tender for the selection of MVNO licenses by Q1 2020. We are currently studying all the conditions set by the regulator.

- **KSA**

  - Zain KSA has deployed extensive 5G infrastructure in major cities in the Kingdom and 5G services were launched for test users at the NEOM Airport in June. We are seeing speeds exceeded 1 Gbps and we are gearing up for a full commercial launch in Q3 2019.

  - **Re Tower Sale**…as was disclosed, the regulatory authorities rejected the IHS license application. Nevertheless, this is a temporary setback as IHS is now taking the necessary steps in reapplying and we are still confident this transaction will materialize soon.

  - Zain Saudi Arabia has made an early voluntary payment of Murabaha Financing Agreement of SAR 300 million, demonstrating the strong cash generation of the business, bringing the total payments made during the past 9 months to SR 1.4 billion.

- **On Iraq 4G licence:** On-going discussions are being held with CMC. CMC has appointed PwC to study terms and conditions for the grant of 4G licences. Licenses are expected to be granted in Q1 2020.

Overall, these robust set of results reconfirm that our digital transformation program, efficiency drive, and growth strategy is on track in delivering our ambitious financial targets.

And with that I will now handover to Mohammed to discuss the results in more detail. Thank you.

Mohammed Shereef:
Thank you, Scott, and good afternoon everyone.

As you all are aware, Zain continues to perform extremely well across all key operations given the competitive and challenging nature of this dynamic industry. The strategic consolidation of Zain KSA back in Q3 '18 has boosted the Group results on many levels and continues to do so.

As advised in our Q1 call, the Group applied the new accounting standard IFRS 16 (related to leases) from 1st January 2019.

Accordingly, during Q2 the adoption of the standard led to a benefit of:

- KD 18.4 million (USD 61 million) in EBITDA and;
- KD 1.5 million (USD 5 million) in Net Income

IFRS 16 benefit for H1- 2019 is as follows:

- KD 37 million (USD 121 million) in EBITDA and;
- KD 3.2 million (USD 11 million) in Net Income.

The Group's leverage i.e. net debt / EBITDA (including Guarantees) currently stands at 2.2 times, which is below the industry average and we aim to further reduce such levels to minimize associated costs.

<u>Let's move to slide 14 - Zain Kuwait</u>

Operationally Zain Kuwait remains the most profitable company within the Group and continues to maintain its market lead in both value share and customer base, as it now serves 2.8 million customers.

From a local market perspective that is getting even more competitive, Zain Kuwait's market leadership is reflected by the fact that its revenue represents ~40% of the total market revenue and 60% of the total net income in the Kuwaiti telecom market.

For the second quarter of 2019, Revenue grew by 6% compared to Q2-18, to reach KD 83 million (USD 274 million), mainly on account of the solid progression in data revenue. EBITDA jumped by 16% to reach KD 33 million (USD 108 million), on account of improved gross margins and benefit obtained on implementation of IFRS 16 amounting to KD 2.5 million. Net income increased by 10% to reach KD 22 million (USD 74 million) including a benefit of KD 1.3 million on adoption of IFRS 16.

For the first six months of 2019, revenue dropped by 6% to reach KD 165 million (USD 544 million), mainly due to additional enterprise revenue (MEW project) and bulk sales in H1 '18 (if we were to exclude the one-time MEW project revenue and bulk sales of KD 20 million, revenue would have grown by 6% Y-o-Y). EBITDA for the period increased by 18% due to improved gross margins and benefit obtained from the adoption of IFRS 16 amounting to KD 5 million. Net income increased by 10% Y-o-Y to reach KD 44 million (USD 144 million) including an IFRS 16 benefit of KD 2.6 million.

To support our focus on enhancing data revenue and launching 5G services, Zain Kuwait invested USD 46 million (8.5% of its revenue) in CAPEX during H1 '19, growing its digital platforms and implementing an entire range of Data monetization initiatives. The benefits of such investment and focus are reflected in the Data revenue that grew by 9% and now represents 37% of total revenue.

Closing on Zain Kuwait, I would like to mention that we expect to close the Tower sale in the second half of 2019 and the gain for the sale will be reflected accordingly.

Saudi Arabia which is on slide 15:

Zain KSA continues its incredible run, highlighted by growth in all key financial indicators and thus reporting its best ever Q2 and H1 results.

The Saudi telecom market is very competitive, and the team's effort is evident as the operation attained double-digit growth in Revenue and EBITDA, as well as its 4th consecutive quarter of net profit.

Revenue for the quarter increased by 11% to reach USD 549 million compared to Q2-18, driven by the revamped Postpaid consumer segment and other new revenue streams (FTTH, DIA and IBS). EBITDA jumped by an impressive 53% to reach USD 252 million including IFRS 16 benefit of USD 36 million, reflecting a healthy EBITDA margin of 46%. Net income for the quarter reached USD 35 million including IFRS 16 benefit of ~USD 3 million, compared to a loss of USD 10 million during Q2 '18, mainly attributable to the positive EBITDA performance including benefits from regulatory agreements (i.e. the CITC waiver and reduction of royalty fees from 15% to 10%).

Impressively, for the first six months of 2019, revenue increased by 17%. EBITDA for the period jumped by 60% and the net income soared to reach USD 69 million compared to USD 31 million loss in the same period of prior year.

As you all know, the Kingdom's mobile users are very data hungry and we need to continue to invest in network upgrades and expansion to meet this growing demand. In line with the operation's vision to provide the best services to customers, the operation will be launching the commercial 5G services in the 2nd half of the year. For the six months, we invested $111 million (10% of revenue) in CAPEX, and Data revenue represented 44% of total revenue.

One relevant and positive point I wish to highlight is that the ARPU in Zain KSA increased from $18 to $20 over the last year (11% Y-o-Y growth), indicative of the success of our focus on postpaid lines and data monetization initiatives.

The company is in a much stronger financial position now, evidenced by an early voluntary payment towards the Senior Murabaha financing agreement amounting to SAR 300 million in

Q2 ‘19, reflecting the company’s solid cash flow generation and thus bringing the total repayment amount to SAR 1.425 billion in the past nine months.

In June 2019, Zain KSA signed a new islamic two- year (renewable) Murabaha junior credit facility agreement amounting to SAR 2.25 billion with a syndicate of five core Saudi Arabian and regional banks to refinance a USD 600 million facility. The facility was oversubscribed significantly. This allowed us to reduce the Murabaha profits to recognize savings over the period of the loan.

Moving to slide 16, which is Zain Iraq

Given the improving socio-economic conditions of the country, Zain Iraq is slowly but surely growing to levels that justify our faith in the great opportunities of this promising telecom market.

The operator’s Customer base increased 4% to reach 15.3 million, representing 31% (the highest) of the Group’s total customer base.

For Q2 specifically, the intense competition continued to impact the top line which came 8% lower compared to last year at USD 260 million. However, EBITDA for the quarter increased by 14% mainly due to lower Opex on account of cost optimization initiatives and a benefit of USD 9 million on adoption of IFRS 16. EBITDA margin grew to a healthy 43%. Net income for the quarter increased by 7% to reach USD 10 million, even with a negative impact of ~USD 600k from IFRS 16.

For H1 2019, revenue reached USD 522 million, a 6% drop Y-o-Y mainly due to the market competition, as mentioned above. However, EBITDA increased by 14% due to the cost optimization initiatives implemented at the operation as well as a USD 17 million benefit on the adoption of IFRS 16. Net income rose by a remarkable 39% to reach USD 25 million, including a negative impact of ~USD 700k to the bottom line, due to the adoption of IFRS 16.

The operator invested $38 million (7% of revenue) in Capex, to support the increase in data demand. The team in Iraq is focusing heavily on the enterprise (B2B) segment and this is proving to be a very profitable growth area in both service and data revenue.

Going to slide 17 which is Zain Jordan:

Zain Jordan continues to maintain its market leadership, now serving 3.7 million customers.

Revenue for the second quarter increased by ~ USD 2 million compared to Q2, 2018 mainly due to 7% growth in data revenue despite the new regulated lower interconnection rates which was effective from 1st January 2019 whereby the rate changed from 11.6 Fils to 8.4 Fils. EBITDA jumped by 16% on account of decrease in Opex (lower utilities cost) and the benefit on adoption of IFRS 16 amounting to USD 3.6 million. Net income increased by 17%, with no material impact on the bottom line on account of IFRS 16.

Revenue for the first six months was stable at USD 240 million. EBITDA increased by 17% mainly due to the improved gross margins and decrease in Opex (lower utilities cost), as well as the benefit on adoption of IFRS 16 amounting to ~USD 7 million. Net income for the period increased by 9%, with IFRS 16 having no material impact on the bottom line.

EBITDA margin for the year remained healthy at 47% with data revenue growing 4% Y-o-Y and represents 40% of total revenue.

<u>Sudan which is on slide 18:</u>
As you all know, the country has recently experienced many issues and the performance of the operation is commendable given the exceptional circumstances there. The official currency exchange rate has strengthened by 6% in Q2-19 compared to Q1-19, i.e. from SDG 47.5 to SDG 45 against the USD, which is encouraging, and we are hopeful that the recent agreement between the army and civilian bodies result in further strengthening of the currency and better socio-economic conditions.

The operator is performing exceptionally well in local currency terms, but the significant 43% currency devaluation in Sudan during the six months ended 30 June 2019 compared to H1-18, affected both the Group's and the operation's financial results in USD terms.

For H1 2019, in local currency (SDG) terms, the operator's revenue grew by 45% YoY (down 18% in USD terms). EBITDA increased by 36% (down 23% in USD terms) and net income increased by 31% (down 30% in USD terms). The adoption of IFRS 16 had no material impact on the Operation.

Data revenue accounted for 16% of total revenue and grew 31% in SDG terms.

The operation serves around 15.1 million customers which grew by 9% YoY. The operator's customer base is the second largest within the Group, which represents 31% of the Group's total customer base.
With that, I'll hand over to Mohammad for Q&A.

Mohammad Abdal:
Thanks, Mohammed. With that, we will now move to the Q&A session. And we ask that you limit yourself to one question and one follow-up.

Operator:
Thank you. Ladies and gentlemen, we will now begin the question and answer session, if you wish to ask a question press star one on your telephone and wait for your name to be announced, if you want to cancel your request please the # key.

Your first question comes from the line of Ramesh – HSBC

Ramesh – HSBC
Hi Thanks for the presentation, regarding other income, you added management fees to other income. What is the expense and what's is the management income fee in that? Please elaborate?

Mohammed Shereef
Management fees are eliminated in the consolidation levels, there are no management fees included in 2019, yes there were management fees in 2018 from Zain KSA. Difference is that last year we took a provision and that is why last year you see a negative, and this year you see a positive.

Nishit Lakhotia – SICO
Thank you so much for the call. Two questions…one related to the development of Zain Saudi Arabia re capital restructuring. What's the status and terms of the capital right issue and timing? 2nd question on Zain Bahrain, can you please advise on the progress of the Enterprise business and upstreaming of dividends to Zain Group? As the operation has good cash-flows and dividends seem minimal from Bahrain. What's the outlook of higher dividends from the entity?

Scott Gegenheimer
Re Zain KSA capital restructuring, it's in progress and hard to give guidelines and timeframe as its pending with the government and we are waiting for regulatory approvals. Regarding upstreaming and dividends, I see them as different issues as we upstreaming cash from the OPCOs. Re Dividends, we haven't decided with the board yet the dividends for 2019, noting we generally payout around 70% of our net income and expect similar payment dividends going forward.

Re Bahrain, although it's a fairly small market, having three operations makes it difficult and challenging for all. However, we are transforming and make lots of restructuring there, especially we are focused on digital. We've seen swings on profitability as we are closing shops and pushing to the digital stream. We are focused on fixed and see room for growth especially in Enterprise.

Omar Maher – EFG Hermes

This is Omar from EFG again, I have a couple of questions. So, first of all this is mainly on Iraq, obviously revenue wise there, revenues and margins have softened a bit this quarter, and we are hearing there is a return to price wars in Iraq. So maybe you could validate this, whether it is correct or not, and just to understand from your perspective, there are two big operators in Iraq and a third smaller one that is obviously more focused on the Kurdistan region, Korek. So wouldn't it make more sense seeing where Iraq is coming from a lower base having recovered from the security situation that it had for the few years, wouldn't it make more sense to focus on enhancing margins and ARPUs rather than return to price wars and price competition for market share? So that's on Iraq, and on Sudan, thank you for the update that you provided during the presentation earlier, but maybe if you could provide some color on what is going on in the market today specifically like how demand is reacting or behaving from the consumer side in light of the political instability we have been witnessing. Is it a case of increased traffic communications during these times, or are you seeing any challenges in terms of logistics, in terms of distributing your SIM cards and your products, and whether you are having difficulty importing CAPEX? And whether there is any improvement in taking money out of the country and so on Thank you.

Scott Gegenheimer

Thank you for the question on Iraq. Iraq has been a tough market for us, there is no question about that. And you are right, there has been a price war that started towards the end of 2018. Based on some of our previous experience with the price war that has gone on with the competition, we had to respond quite strongly in order to protect our base. The price war ended a few weeks after making our moves, and the market became a little more rational. We still have quite a few customers who are on these lower tariffs because of the price war but the market is definitely becoming more rational, and we have been focusing more on value management activities in order to continue growing our revenue there. But competition is very tough there and typically the competition tends to think more about market share than they do about profitability. We tend to think more about profitability than market share, so it has been quite challenging for us to continue to try to attack the market, so we have been focusing more on value share there. So hopefully that answers your question. Thanks.

Omar Maher – EFG Hermes

Thanks Scott, are you seeing the third, smaller player moving down into your home base maybe? Is this something that may add to the price wars, or are they pretty much staying in the north?

Scott Gegenheimer

We have seen, the third player moving a little bit into our territory, but not as much as you would think. I think one of the issues you see in Iraq in general is that the market shares between the operators are significantly different between the territories. If everyone had similar market shares across all markets then you wouldn't see as much of a price war, but when some markets, for instance our stronghold is in the south west, if we have 80% market share the person that has 5-10% share can go on to create price disruptions, and that is what we have seen in the last couple of years there. The market share is starting to be more evenly split across the whole country and so you are seeing a little bit less when it comes to the price wars, that is one of the big issues there.

Hopefully that answers your question. Thanks

Omar Maher – EFG Hermes
Thanks, and on Sudan?

Mohammed Shereef
The operation in local currency is performing well in local currency in double digit growth. Repatriation of currency is challenging, and we are investing in CAPEX in the network and Fixed assets there to obtain and preserve value.

Omar Maher – EFG Hermes
Thank you. Do you have difficult issues in importing equipment in Sudan?

Scott Gegenheimer:
No, we don't have issues in importing equipment, the only issue is getting hard currency to pay the vendors, however with our vendors we are contracting with some of them in local currency and minimizing the extra cost.

Moderator
No more questions so I will hand it back to Mohammad Abdal for any closing remarks.

Mohammad Abdal
Thanks operator, please refer to the Investor Relations website for additional updates and feel free to contact the IR team at IR@zain.com for further information. We look forward to your future participation in our Q2 2019 update, the date for which we will announce in the forthcoming months.

Thank you all for joining the call. Have a nice day.

- END -

Zain Group Financial Results

Q2 2019

Disclaimer

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Content

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2. Operations review
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Zain At A Glance – H1 2019

$2.7 BILLION
IN REVENUE

15.3 MILLION
CUSTOMERS IN IRAQ

9,170 TB
AVERAGE DAILY DATA VOLUME

44%
EBITDA MARGIN
ONE OF THE HIGHEST IN THE REGION

49.2 MILLION
ACTIVE CUSTOMERS

4G LONG TERM EVOLUTION
(LTE) NETWORK IN KUWAIT, SAUDI ARABIA, JORDAN, BAHRAIN, SUDAN & LEBANON

$1.2 BILLION
IN EBITDA

$321 MILLION
IN NET INCOME

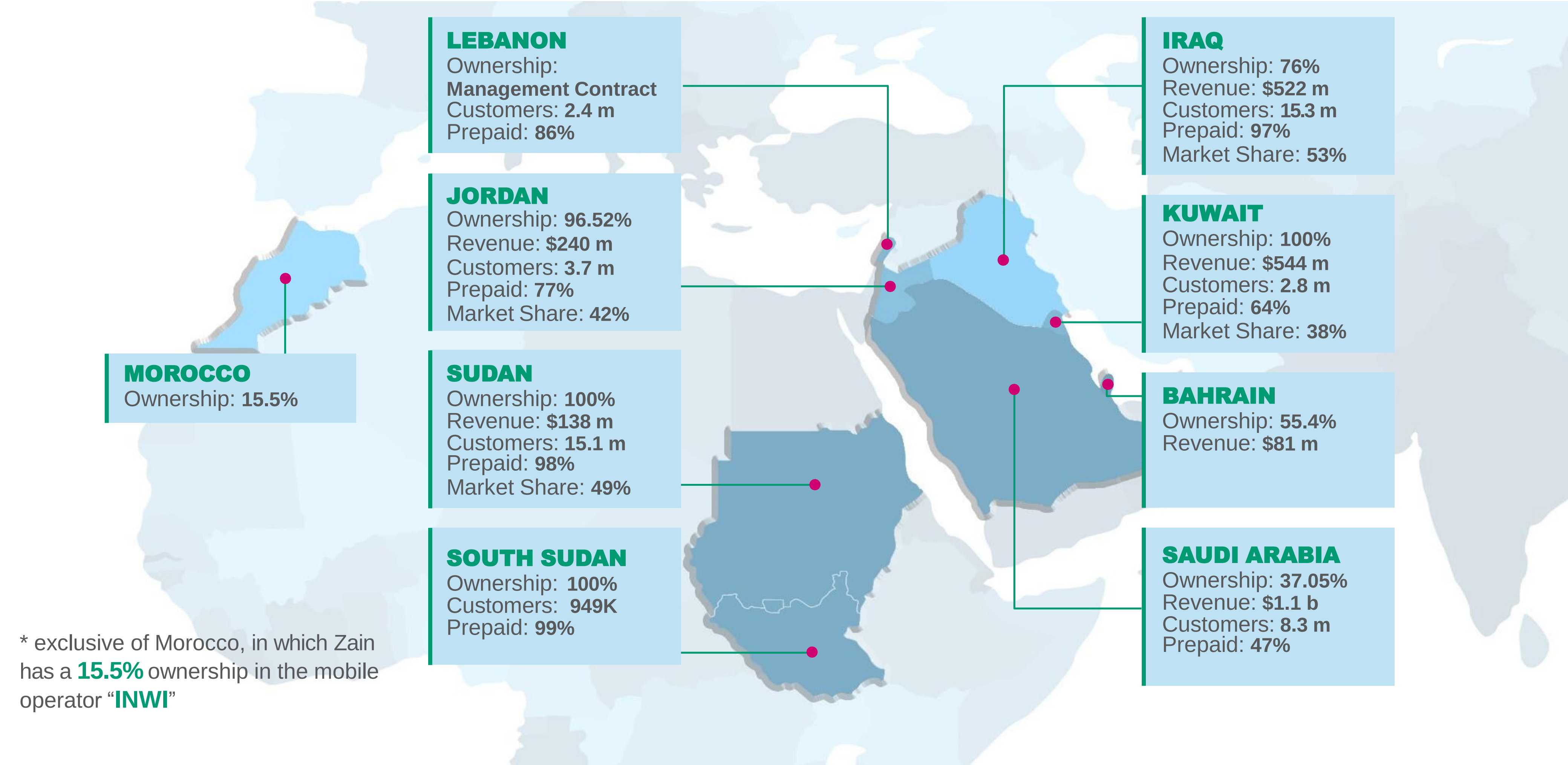
OVER 6,400
EMPLOYEES

1 MARKET LEADER
IN KUWAIT, IRAQ, REPUBLIC OF SUDAN, JORDAN & LEBANON

15.1 MILLION
CUSTOMERS IN REPUBLIC OF SUDAN

The World of Zain – H1 2019

ZAIN'S WORLD CATERS TO 49.2 MILLION CUSTOMERS IN 8 COUNTRIES*



LEBANON
Ownership: **Management Contract**
Customers: **2.4 m**
Prepaid: **86%**

JORDAN
Ownership: **96.52%**
Revenue: **$240 m**
Customers: **3.7 m**
Prepaid: **77%**
Market Share: **42%**

SUDAN
Ownership: **100%**
Revenue: **$138 m**
Customers: **15.1 m**
Prepaid: **98%**
Market Share: **49%**

SOUTH SUDAN
Ownership: **100%**
Customers: **949K**
Prepaid: **99%**

MOROCCO
Ownership: **15.5%**

IRAQ
Ownership: **76%**
Revenue: **$522 m**
Customers: **15.3 m**
Prepaid: **97%**
Market Share: **53%**

KUWAIT
Ownership: **100%**
Revenue: **$544 m**
Customers: **2.8 m**
Prepaid: **64%**
Market Share: **38%**

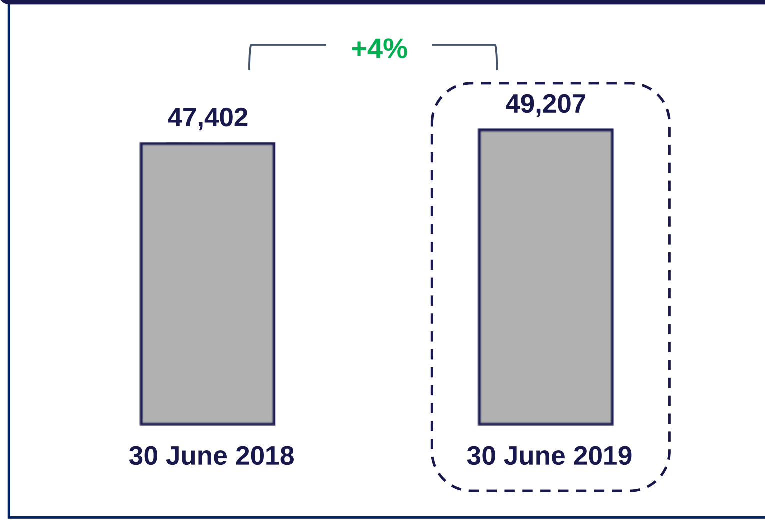
BAHRAIN
Ownership: **55.4%**
Revenue: **$81 m**

SAUDI ARABIA
Ownership: **37.05%**
Revenue: **$1.1 b**
Customers: **8.3 m**
Prepaid: **47%**

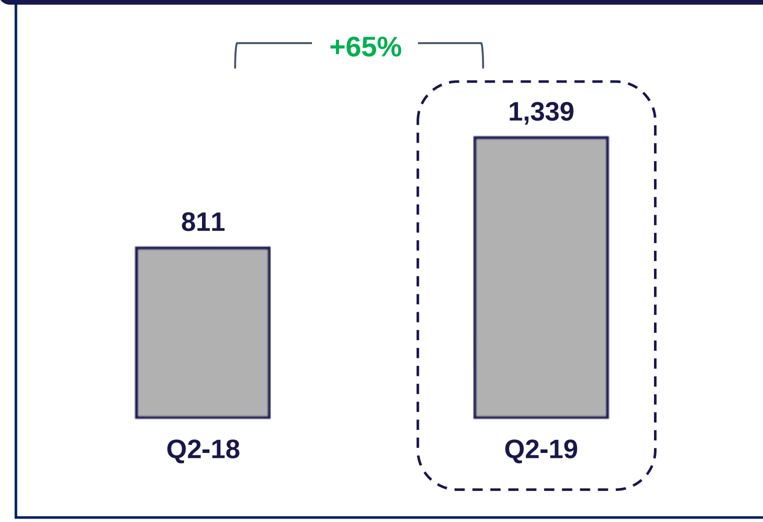
* exclusive of Morocco, in which Zain has a **15.5%** ownership in the mobile operator "**INWI**"

Group Financial Highlights – Q2 2019

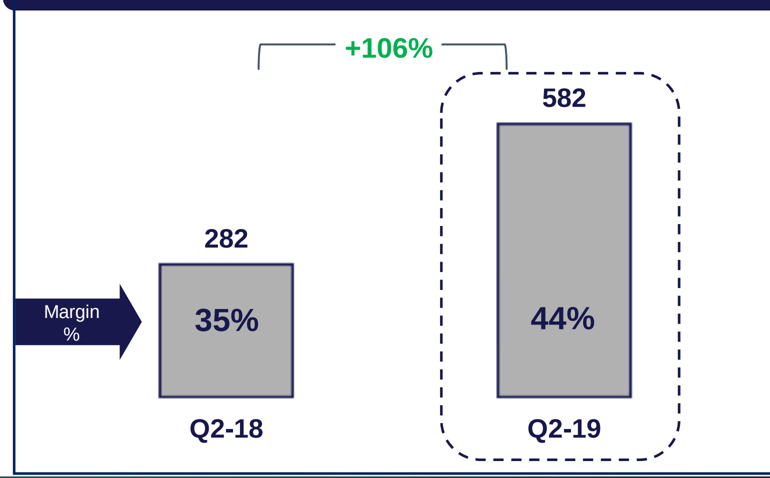
CUSTOMERS (000)



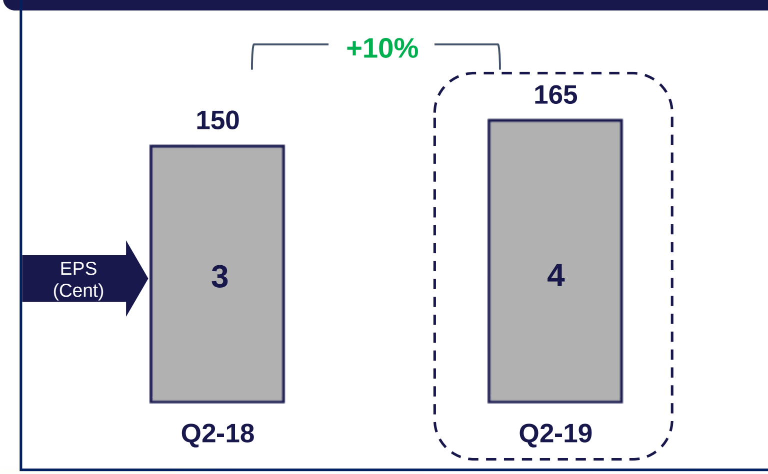
REVENUE (USDm)



EBITDA (USDm)

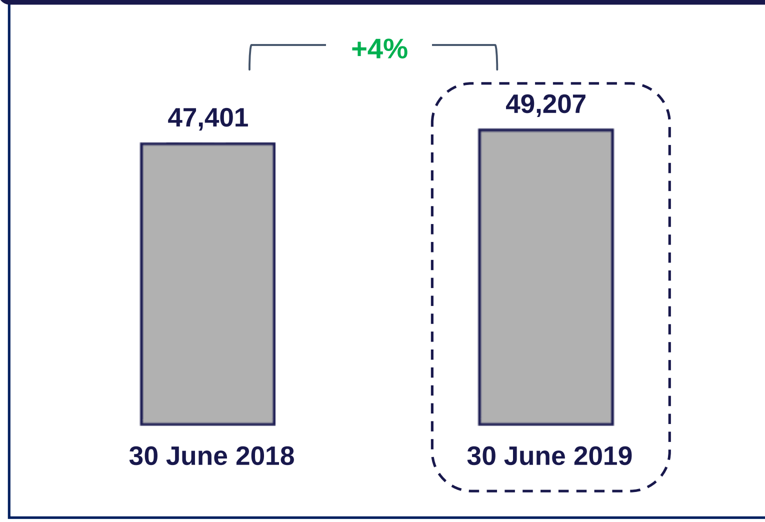


NET INCOME (USDm)

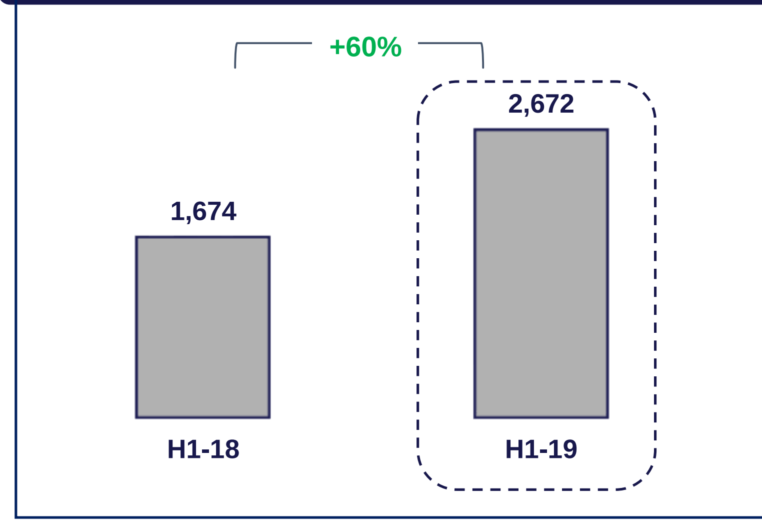


Group Financial Highlights – H1 2019

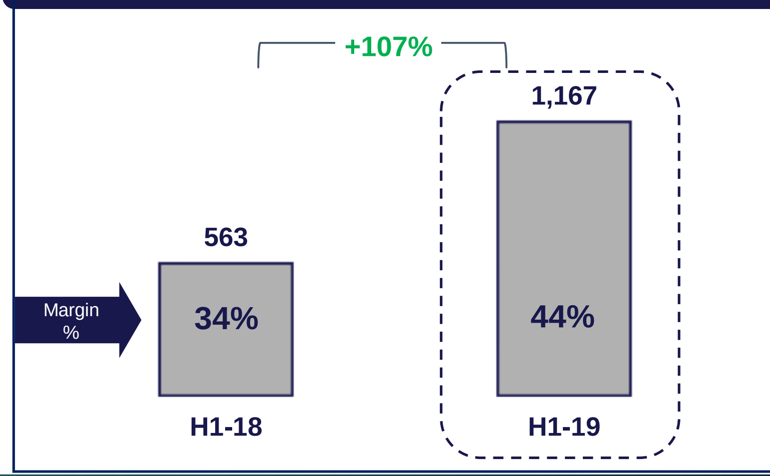
CUSTOMERS (000)



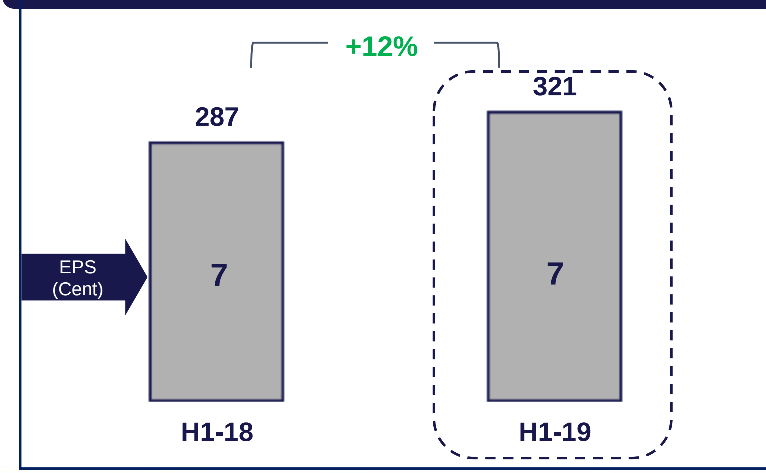
REVENUE (USDm)



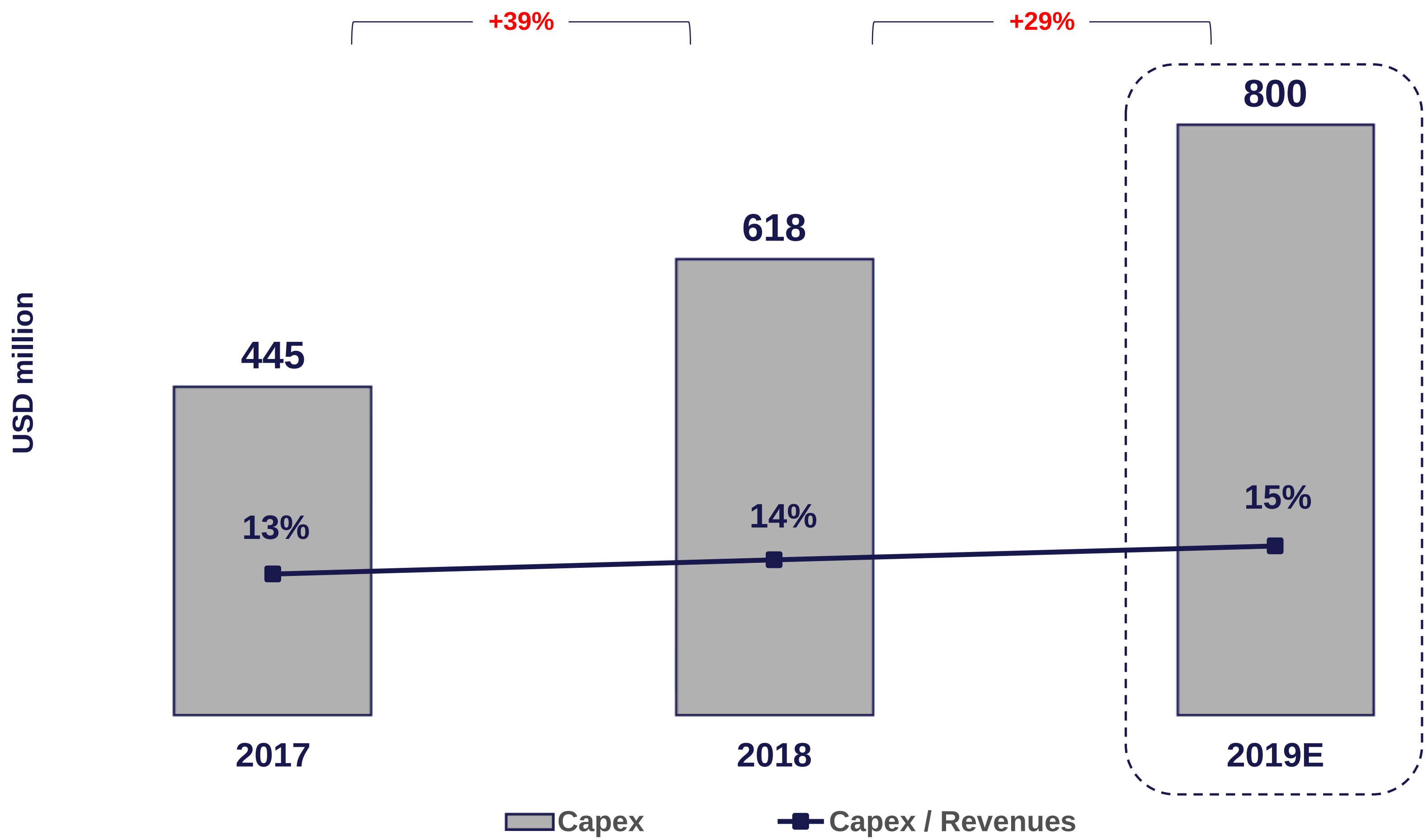
EBITDA (USDm)



NET INCOME (USDm)



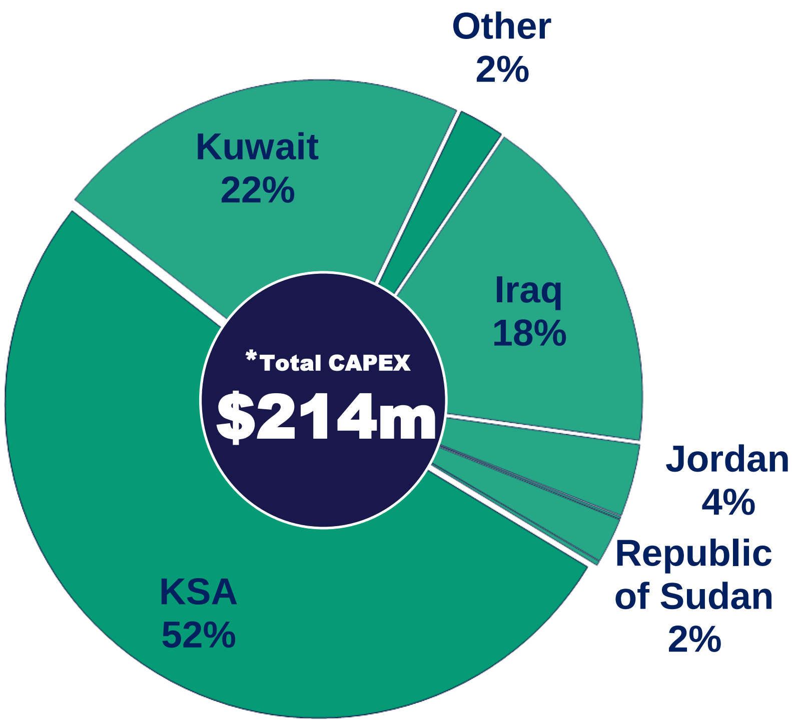
CAPEX & CAPEX / REVENUE



* 2017 Capex is excluding Zain KSA
* 2018 Capex includes Zain KSA Capex from Q3 2018 onwards
* Capex includes only tangible assets
* 2019 Capex estimated

TOTAL CAPEX

CAPEX BREAKDOWN



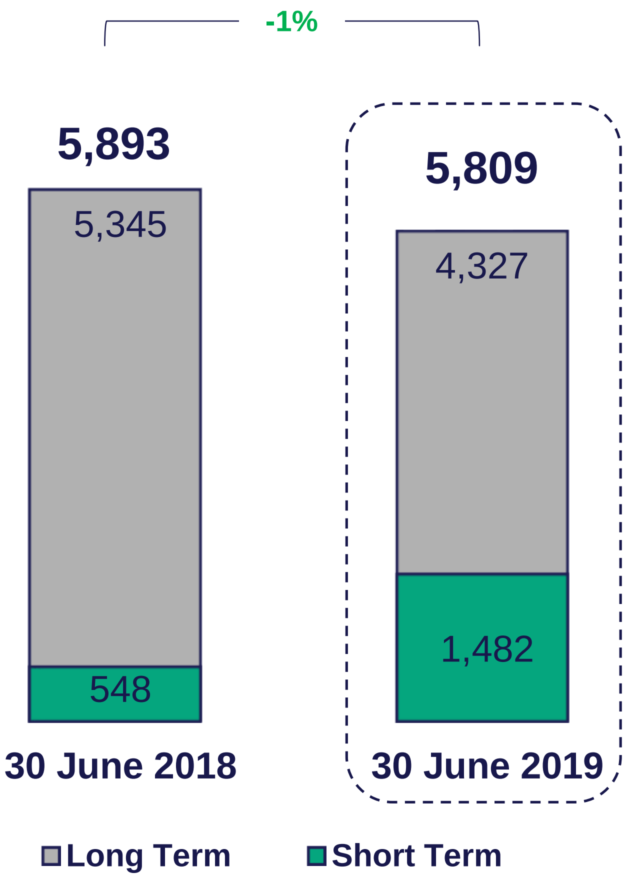
OPCO	H1 2019 (USDm)	% OF REVENUES
Kuwait	46	9%
Iraq	38	7%
Sudan	5	4%
KSA	111	10%
Jordan	8	3%
Bahrain	0.5	1%
S. Sudan	0.3	1%
Other	5	N/A

* Group Total Capex = **USD 214 million**

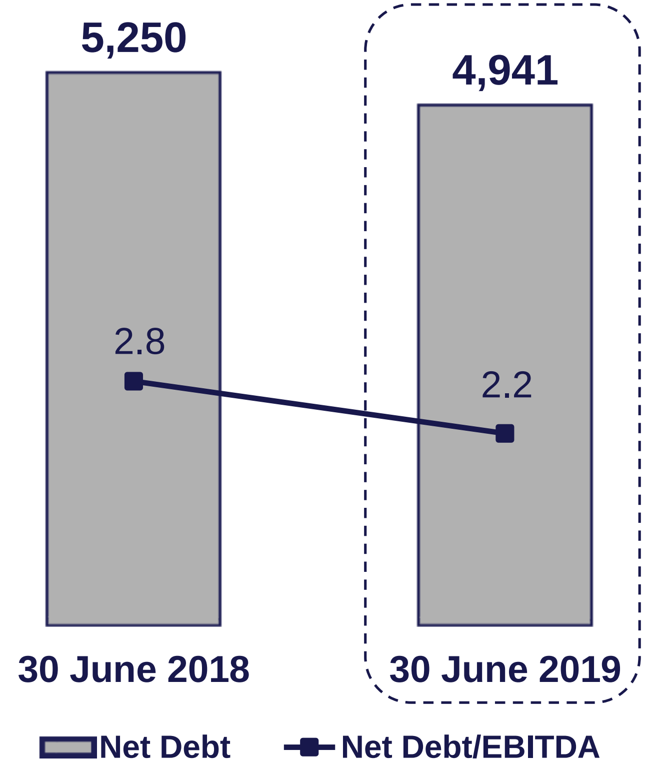
** Capex includes only tangible assets*

Group Financial Highlights

TOTAL DEBT (USDm)



NET DEBT (USDm) & NET DEBT/EBITDA

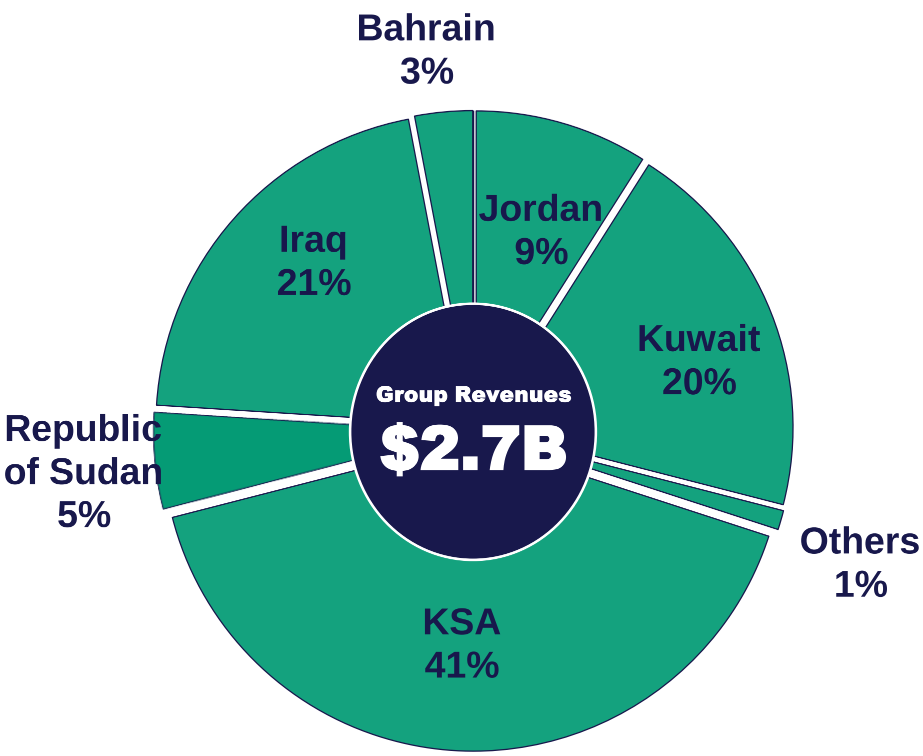


H1 2018 Total Debt includes Zain KSA for comparative purposes

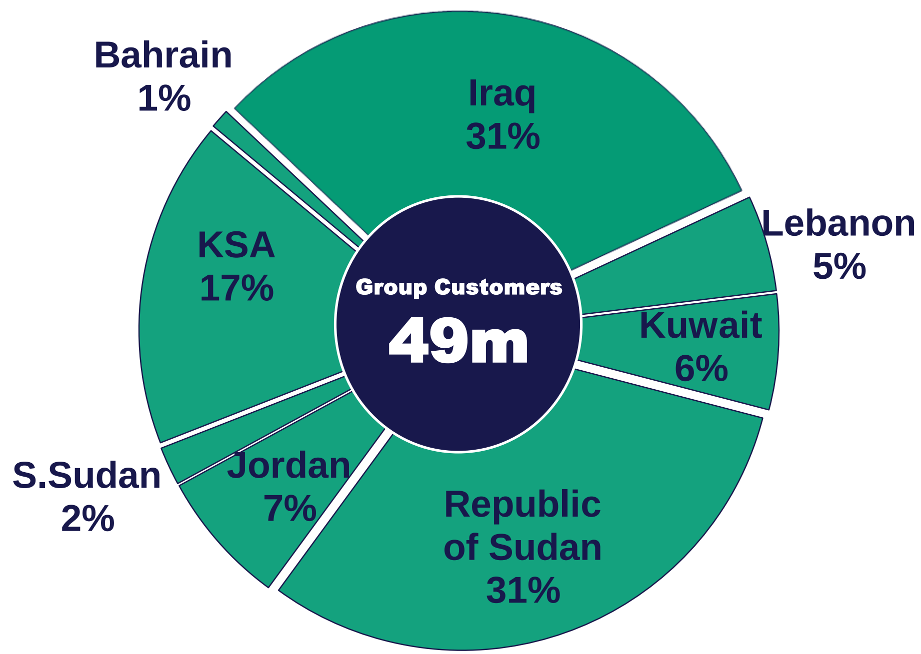
Net Debt = Total interest bearing debt (including letters of guarantee) after deducting cash and cash equivalents

Group Financial Highlights – H1 2019

REVENUE CONTRIBUTION

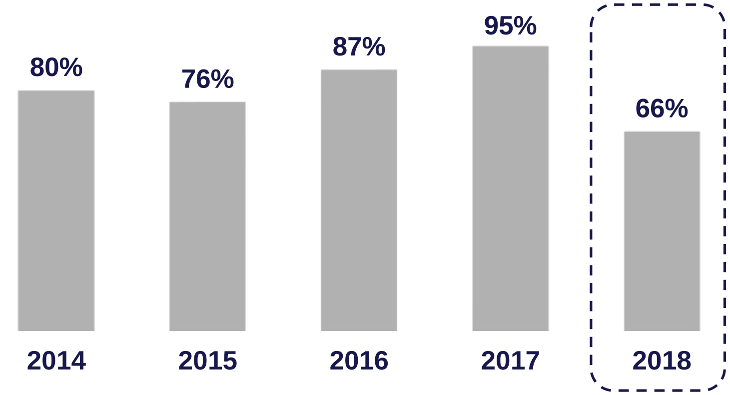


CUSTOMER CONTRIBUTION

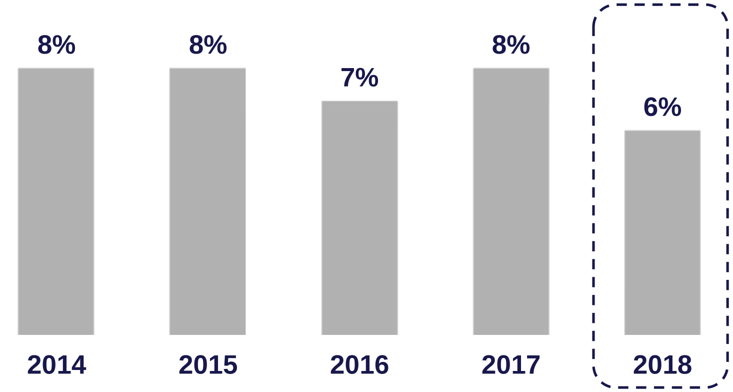


ZAIN DIVIDENDS

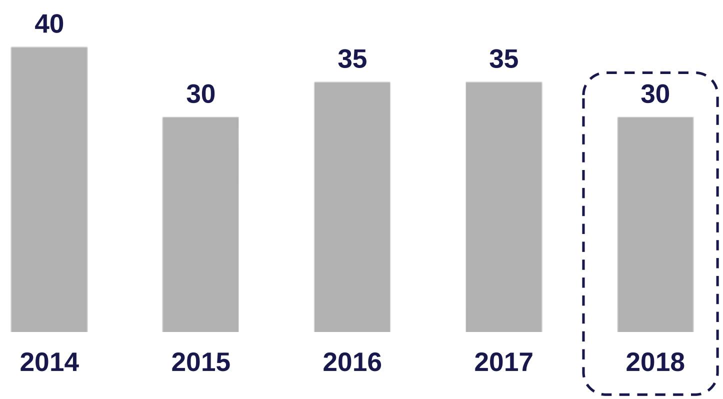
DIVIDEND PAYOUT RATIO



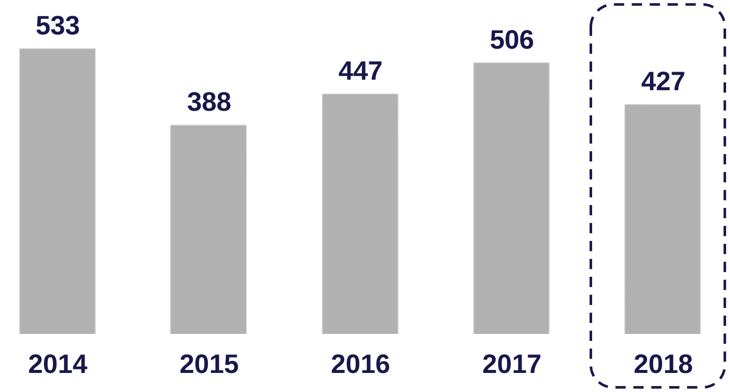
DIVIDEND YIELD (%)



DIVIDEND PER SHARE (Fils)



CASH DIVIDEND (USDm)



Content

1. Results Review
2. Operations review
3. Financial Statements

ZAIN KUWAIT

1983 Year of launch

100% Ownership

168% Penetration

2.8 m Customers

$25 ARPU

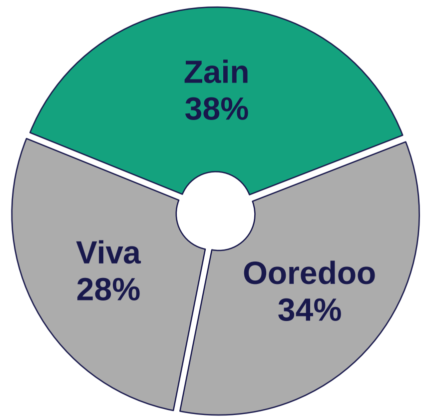
39% EBITDA Margin

4G Technology

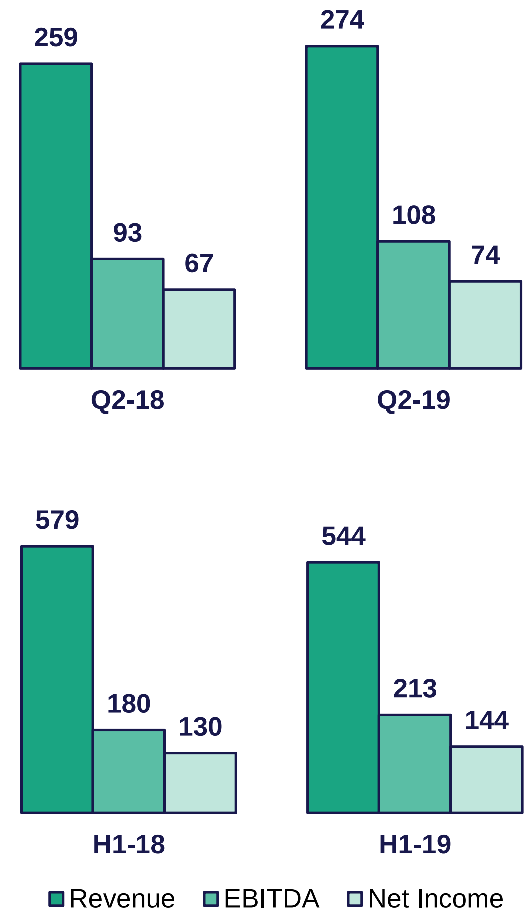
2,435 Number of sites

100% Coverage

MARKET SHARE



FINANCIALS (USDm)



- Excluding the MEW project and bulk sale in H1 2019, Revenue would have grown by 4%
- Strong concentration on cost optimization initiatives
- Increase in EBITDA is due to improved gross margins and IFRS 16 benefits.
- Data revenues grew 9% YoY, and formed 37% of total revenue
- Launch of 5G commercial services in Kuwait

ZAIN KSA

2008
Year of acquisition

37%
Ownership

129%
Penetration

8.3 m
Customers

$20
ARPU

46%
EBITDA Margin

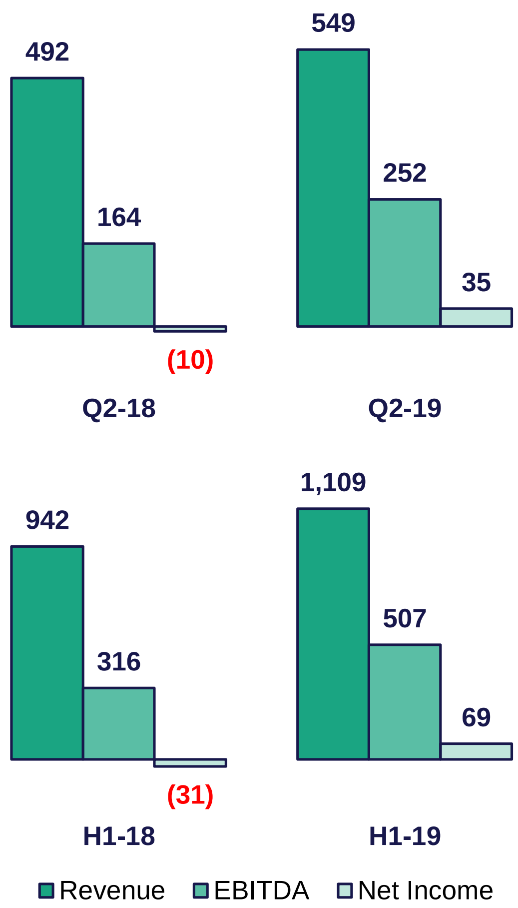
4G
Technology

9,404
Number of sites

99%
Coverage

- Revenue increased 17% YoY, driven by the revamped Postpaid consumer segment and other new revenue streams (FTTH, DIA and IBS)
- Regulatory changes to reduce annual royalty fee for commercial service from 15% to 10%, improved Zain KSA's financial position
- Major focus on the enterprise B2B segment resulted in healthy growth
- Data revenues formed 44% of total revenue
- Signed new SAR 2.25 b Murabaha junior credit facility agreement
- SAR 300 m early voluntary repayment towards senior Murabaha (paid SAR 1.425 b in the past 9 months)

FINANCIALS (USDm)



ZAIN IRAQ

2003 Year of acquisition

76% Ownership

96% Penetration

15.3 m Customers

$5 ARPU

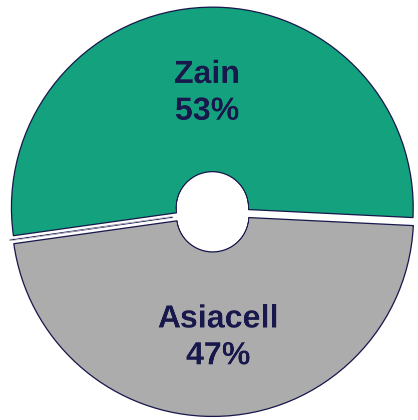
42% EBITDA Margin

3G Technology

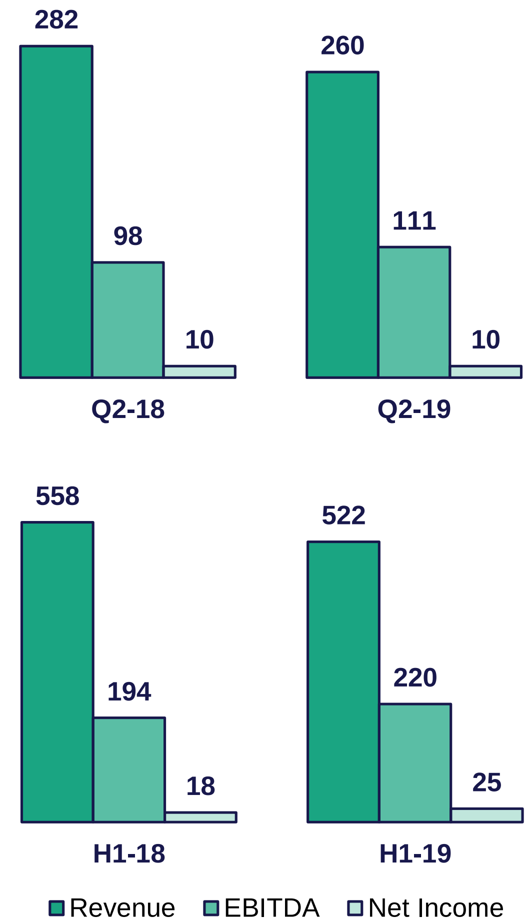
4,716 Number of sites

99% Coverage

MARKET SHARE



FINANCIALS (USDm)



- The period saw intense competition which impacted the top line
- IFRS 16 adoption and strong focus on cost optimization benefited EBITDA
- Robust growth in enterprise (B2B) segment
- Customer base grew by 4%, to reach 15.3 million

ZAIN JORDAN

2003
Year of launch

96.52%
Ownership

80%
Penetration

3.7 m
Customers

$10
ARPU

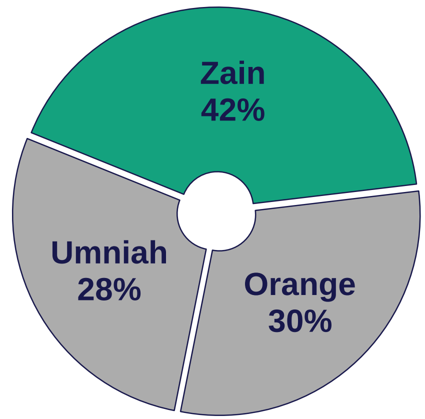
45%
EBITDA Margin

4G
Technology

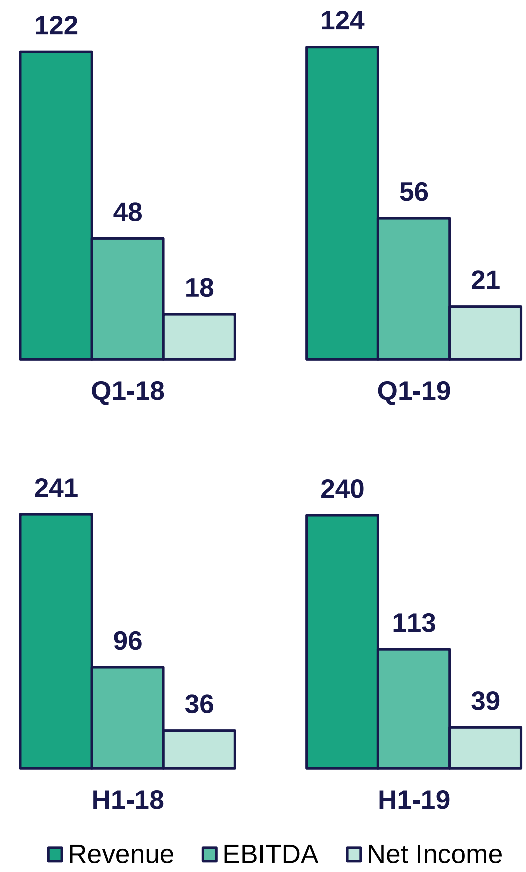
2,889
Number of sites

100%
Coverage

MARKET SHARE



FINANCIALS (USDm)



- Stable Revenue for the first six months
- EBITDA increased by 16%, due to lower Opex (lower utilities cost) and new IFRS 16 benefits.
- Data revenues grew by 4% YoY, and formed 40% of total revenue.

ZAIN SUDAN

2006 Year of acquisition

100% Ownership

72% Penetration

15.1 m Customers

$2 ARPU

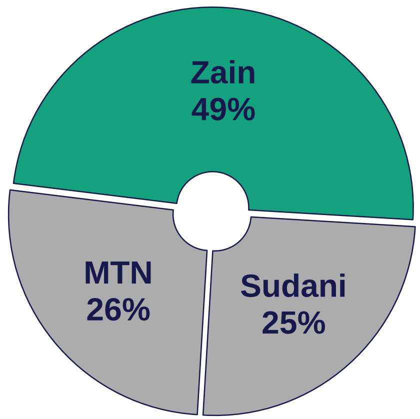
37% EBITDA Margin

4G Technology

2,651 Number of sites

90% Coverage

MARKET SHARE



FINANCIALS (SDGm)

- Impressive YoY growth in local currency SDG terms
- Customer base grew by 9%, to reach 15.1 million
- ~43% currency devaluation affected the financial results in USD terms (from an average of 26.5 in H1 2018 to 46.5 SDG/USD in H1 2019)
- Significant cost optimization savings
- Data revenues grew 31% YoY, and formed 16% of total revenues

ZAIN BAHRAIN

2003
Year of launch

55%
Ownership

164%
Penetration

$17
ARPU

35%
EBITDA Margin

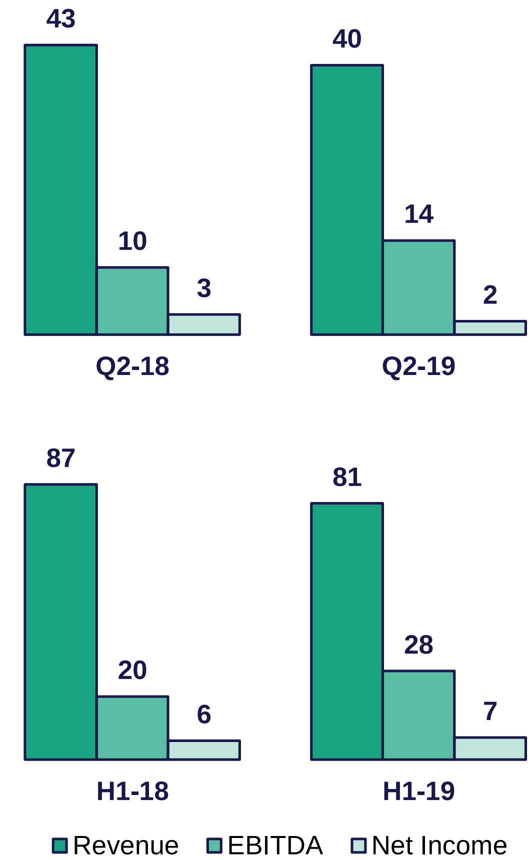
4G
Technology

594
Number of sites

100%
Coverage

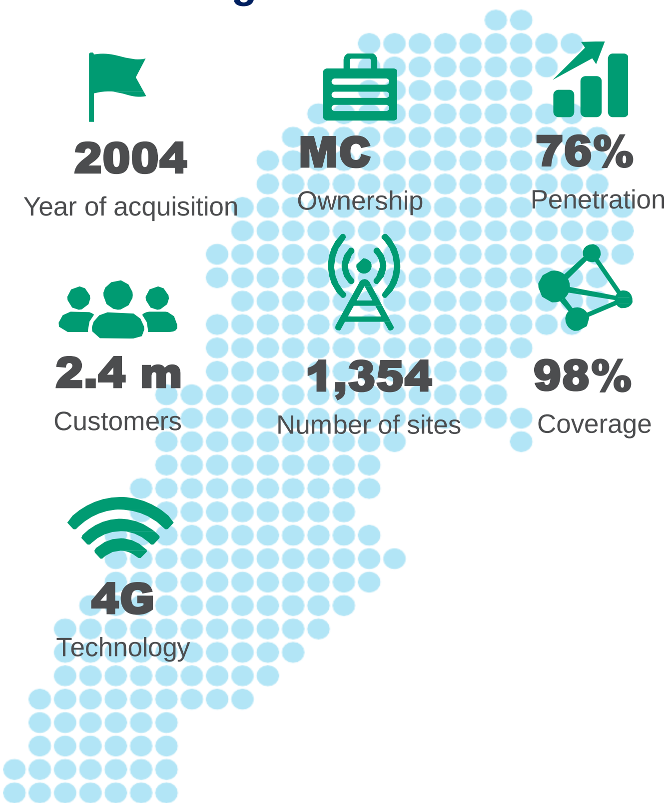
- EBITDA jumped by 41% mainly due to the IFRS 16 benefits
- Net Income increased by 9% YoY
- Data revenues formed 48% of total revenues

FINANCIALS (USDm)

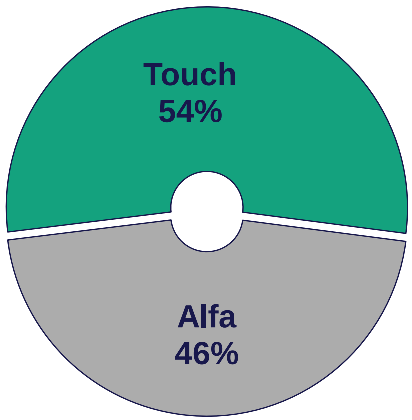


TOUCH - LEBANON

Management Contract



MARKET SHARE



- Zain operates in Lebanon under a management contract since June 2004, when it was rebranded to mtc-touch, and subsequently to "touch"

Content

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Statement of Financial Position

Assets	Unaudited 30-Jun-19	Audited 31-Dec-18	Unaudited 30-Jun-18
	KD '000		
Current assets			
Cash and bank balances	336,297	311,916	153,555
Trade and other receivables	602,629	572,783	419,570
Contract assets	72,680	66,062	43,355
Inventories	43,330	45,957	19,261
Investment securities at FVTPL	8,655	15,519	11,622
Assets of disposal group classified as held for sale	13,557	7,656	7,656
	1,077,148	**1,019,893**	**655,019**
Non-current assets			
Contract assets	20,432	16,940	13,469
Investment securities at FVOCI	4,956	7,040	8,312
Investments in associates and joint venture	71,823	69,851	188,886
Due from associates	-	-	434,271
Other assets	11,325	11,953	15,232
Property and equipment	1,166,911	1,198,775	676,975
Right of use of assets	179,430	-	-
Intangible assets and goodwill	2,169,009	2,163,267	858,931
	3,623,886	**3,467,826**	**2,196,076**
Total assets	**4,701,034**	**4,487,719**	**2,851,095**

Liabilities and equity	Unaudited 30-Jun-19	Audited 31-Dec-18	Unaudited 30-Jun-18
	KD '000		
Current liabilities			
Trade and other payables	922,229	956,272	469,245
Deferred revenue	94,405	105,308	49,864
Due to banks	449,068	412,971	148,198
Lease liabilities	44,690	-	-
Liabilities of disposal group classified as held for sale	4,214	-	-
	1,514,606	**1,474,551**	**667,307**
Non-current liabilities			
Due to banks	1,043,485	1,033,565	746,372
Lease liabilities	141,461	-	-
Other non-current liabilities	427,661	336,325	40,543
	1,612,607	**1,369,890**	**786,915**
Equity			
Attributable to the Company's shareholders			
Share capital	432,706	432,706	432,706
Share premium	1,707,164	1,707,164	1,707,164
Legal reserve	216,353	216,353	216,353
Foreign currency translation reserve	(1,365,687)	(1,367,018)	(1,293,692)
Investment fair valuation reserve	(1,279)	864	875
Other reserves	(3,359)	(4)	(747)
Retained earnings	233,340	287,143	177,782
	1,219,238	**1,277,208**	**1,240,441**
Non-controlling interests	354,583	366,070	156,432
Total equity	**1,573,821**	**1,643,278**	**1,396,873**
Total liabilities and equity	**4,701,034**	**4,487,719**	**2,851,095**

Statement of Profit or Loss

	Six months ended 30-Jun 2019	2018
	KD'000	
Revenue	811,127	503,162
Cost of sales	(222,950)	(162,025)
Operating and administrative expenses	(220,360)	(166,147)
Depreciation and amortization	(181,009)	(76,901)
Expected credit loss on financial assets (ECL)	(13,461)	(5,801)
Interest income	5,157	14,450
Investment income	772	298
Share of results of associates and joint venture	1,972	(3,553)
Other income/(expenses)	4,888	(17,029)
Finance costs	(56,602)	(19,817)
Provision for impairment loss on property and equipment	-	(9,648)
Loss from currency revaluation	(5,852)	(7,805)
Net monetary gain	4,075	50,269
Profit before contribution to KFAS, NLST, ZAKAT, income taxes and Board of Directors' remuneration	**127,757**	**99,453**
Contribution to Kuwait foundation for Advancement of Sciences (KFAS)	(979)	(480)
National Labour Support Tax (NLST) and Zakat	(3,457)	(1,905)
Income tax expenses	(9,031)	(8,104)
Board of Directors' remuneration	(210)	(138)
Profit for the period	**114,080**	**88,826**
Attributable to:		
Shareholders of the Company	97,291	86,451
Non-controlling interests	16,789	2,375
	114,080	**88,826**

	Six months ended 30-Jun 2019	2018
Earnings per share		
Basic and diluted – Fils	22	20

Statement of Cash Flows

	Six months ended 30-Jun 2019	2018
	KD'000	
Cash flows from operating activities		
Profit for the period before income tax	123,111	96,930
Adjustments for:		
Depreciation and amortization	181,009	76,901
ECL on financial assets	13,461	5,801
Interest income	(5,157)	(14,450)
Investment income	(772)	(298)
Share of results of associates and joint venture	(1,972)	3,553
Provision for impairment loss on property and equipment	-	9,648
Finance costs	56,602	19,817
Loss from currency revaluation	5,852	7,805
Net monetary gain	(4,075)	(50,269)
Gain on sale of property and equipment	1,561	(54)
Operating profit before working capital changes	**369,620**	**155,384**
Increase in trade and other receivables	(73,065)	(73,681)
Decrease in inventories	2,641	14,821
Increase in trade and other payables	24,985	21,176
Cash generated from operations	**324,181**	**117,700**
Paid to KFAS	(771)	(319)
NLST and Zakat paid	(2,068)	(5,492)
Income tax paid	(9,022)	(8,476)
Net cash from operating activities	**312,320**	**103,413**

	Six months ended 30-Jun 2019	2018
	KD'000	
Cash flows from investing activities		
Deposits maturing after three months and cash at bank under lien	(6)	(5)
Investments in securities	(274)	(3,738)
Proceeds from sale of investments	7,425	316
Increase in due from associates	-	(7,039)
Acquisition of property and equipment (net)	(106,609)	(30,559)
Acquisition of intangible assets (net)	(15,377)	(308)
Interest received	4,417	2,668
Dividend received	381	253
Net cash used in investing activities	**(110,043)**	**(38,412)**
Cash flows from financing activities		
Proceeds from bank borrowings	134,258	142,901
Repayment of bank borrowings	(89,217)	(120,587)
Repayment of lease liabilities	(30,394)	-
Dividends paid to Company's shareholders	(127,535)	(148,760)
Dividends paid to minority shareholders of subsidiaries	(4,268)	(470)
Finance costs paid – due to banks	(61,271)	(16,692)
Net cash used in financing activities	**(178,427)**	**(143,608)**
Net increase/(decrease) in cash and cash equivalents	23,850	(78,607)
Effect of foreign currency translation	525	(5,744)
Transition adjustment on adoption of IFRS 9	-	(6,497)
Cash and cash equivalents at beginning of period	304,236	206,432
Cash and cash equivalents at end of period	**328,611**	**115,584**

THANK YOU

Website : zain.com

Email : IR@zain.com

Note: Mobile Penetration rates are sourced from *GSMA Intelligence*