



Zain Group

Q4 2016

Results Call

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Chaired by:

Muneeza Hasan

JPM

Muneeza Hassan: Good afternoon, everyone. This is Muneeza Hassan from JP Morgan and I like to welcome you all to Zain Group's Full Year 2016 earnings call. Before I hand over the call to Mohammad I'd like to mention that the results presentation is available on the company's website in case anyone has not had a chance to download yet. With that I'd like to hand the call over to Mohammad to introduce the management members. Thanks.

Mohammad Abdal: Thank you, Muneeza. And welcome everyone to Zain's FY 2016 earnings conference call. This is Mohammad Abdal of Zain Group and I'm joined today by Scott Gegenheimer our Group CEO of Operations and Ossama Matta our Group CFO. In a moment, we will hear brief remarks from them followed by a Q&A session.

Before we get underway, let me remind you that our quarterly Investor Relations update and presentation slides that accompany this call, are available on the Investor Relations page of Zain website.

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: Thank you, Mohammad. Good afternoon and thank you for joining us on today's call to discuss our 4th quarter and Full Year 2016 results. First of all, I would like to start by mentioning that we held our annual shareholder meeting last week and every three years the Board holds elections. This year, the shareholders have elected a completely new Board of Directors with the exception of the Vice Chairman, Bader Al Kharafi, who has retained his position. The new Chairman is Mohannad Al-Kharafi a very prominent businessman in Kuwait. The Kuwait Investment Authority (KIA), which holds 24.6% equity in Zain, has maintained its board seat but has appointed a new representative, Ahmed Al-Tahous. The Vice Chairman, Bader Al-Kharafi has also taken on the title of Group CEO while my title has changed to Group CEO – Operations. I bet all of you have been wondering what this means for the organization. The Vice Chairman has first-hand knowledge of the business and has been involved in the strategy and direction of the company since I have been here. The Vice Chairman was the one who brought me to Zain and the new role just helps to further cement our excellent working relationship. This change will positively impact the company going forward, particularly in the areas of, stakeholder management and regulatory and governmental relationships to help unlock opportunities to support our Digital transformation programs.

As I have mentioned in prior calls, 2016 was a year of challenges considering the operational progress and transformation we have undertaken across all our markets, it's unfortunate that exceptional circumstances such as the currency issue in Sudan that hit us in November 2016 and the negotiated tax settlements in Iraq affected our financial performance, as it would have otherwise been very positive. With the year behind us, we are much better prepared for the future and are continuing to drive more efficiencies across all operations and seek new opportunities that will drive shareholder value / revenues.

Let me start on page 6 of the presentation that you should be able to download or view it online, where you can see an overview of the Q4 2016 main Key figures. Our Group customer base grew by 3% to reach 47 million customers at the end of 2016. Competition remains intense across our markets but we continue to maintain our customer leadership in most of our markets.

For the fourth quarter of 2016, Zain Group recorded consolidated revenues of USD 860.3 million down 9% Q-o-Q. EBITDA for the quarter reached USD 400.2 million down 4% Q-o-Q, reflecting a healthy EBITDA margin of 46.5%. Net income for the quarter reached USD 105.6 million down 11% Q-o-Q.

Specifically, for the fourth quarter of 2016, currency translation impact cost the company USD 83 million in revenue, USD 33 million in EBITDA and USD 42 million on net income. predominantly due to the 60% currency devaluation in Sudan from 6.4 to 15.9 (SDG / USD) in the beginning of November 2016. It's worth to mention that the net income

was also affected by USD 43 million due to the currency variance loss in Q4 2016, (compared to USD 4 million in Q4 2015).

For the full-year 2016, Zain Group generated consolidated revenues of USD 3.6 billion, down 5% Y-o-Y, while consolidated EBITDA was \$1.7 billion, an increase of 2% Y-o-Y, reflecting a healthy EBITDA margin of 47%. Consolidated net income reached USD 519 million, up 1% and reflecting Earnings Per Share of 40 Fils.

Foreign currency translation impact, for the full year 2016, cost the company USD 92 million in revenue and USD 38 million in EBITDA, and USD 42 million on net income. Additionally, net income was affected by USD 140 million due to currency variance loss in 2016, (Compared to USD 74 million loss in 2015).

Zain Group has made progress in focusing on the operational efficiency, strengthening its plans to rationalize costs and capital expenditure. In prior years, our investments have been quite extensive and we are proud to say that, today, the network quality metrics of our operations are second to none. With this strong position, we have adopted an approach of being very selective in our CAPEX spend. In at least three of our markets (Kuwait, Iraq, Jordan), we have successfully lowered our CAPEX to less than 15% of revenues and our objective for 2017 is to continue to drive efficiencies in CAPEX expenditures. The main outliers for now are Sudan (because of Forex) and KSA. Overall our CAPEX for the year dropped by 20% Y-o-Y to reach USD 635 million (excluding KSA) in 2016, representing 18% of Zain's consolidated revenue. In KSA, we have just concluded the last phase of our aggressive rollout. We spent USD 788 million in 2016 – a significant endeavour. This now places us in a very strong and advantageous position. Our expectations for 2017 are to see CAPEX for KSA drop to more industry benchmark of around 15% of revenues.

I would to highlight a couple of topics which took place recently.

In March 12th, 2017, Zain Group held its AGM and approved the distribution of cash dividend of 35 Fils per share (which represents 87% dividends payout ratio) compared to 30 Fils (76% payout ratio) last year. This was paid on March 19th.

We previously established a program around all the litigations the company was facing. As a result, I'm pleased to announce we have made material progress in most of the cases.

In December 2016, Zain Iraq entered into a negotiated settlement with the Iraq Ministry of Finance in the amount of approximately USD 93 million related to the imposition of a capital gains tax on its acquisition of Iraqna in 2007. This settlement resulted in the lifting of restrictions on the trading of Zain Iraq's shares and access to the company's bank deposits and also waived penalties and interest on taxes, which will support the future viability and growth of our mobile operation in Iraq.

Additionally, on March 1, 2017, Zain Iraq won a verdict against Orascom for approximately USD 70 million. This verdict was related to tax claims issued by the Iraqi Ministry of Finance against Iraqna, including the 2011 Capital Gains Tax. The amount has already been received by Zain Iraq.

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 with Bharti and have paid an 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.

We are not only looking at resolving past issues but we are also proactively focusing on non-market strategies including lobbying efforts. As we already mentioned in our previous call that Saudi Arabia, through a Royal Order on October 1, 2016, we received an extension of our telecommunications license by 15 years, effectively extending the license term from 25 years to 40 years. 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. In 2017 Zain KSA will benefit on a full year impact of this change.

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 year-term expires and requires that Zain KSA coordinate with the Kingdom's Ministry of Finance to discuss alternatives regarding the amounts due to the Government.

Linked to the above, Zain KSA was additionally granted 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.

The previous mentioned initiatives will have a positive impact on our business and as we seek to diversify our revenues.

We are excited by the iflix deal we announced on Feb 15, 2017. The establishment of the joint venture 'iflix Arabia' instantly creates enormous value for both Zain and iflix stakeholders, given the synergies created and the new revenue streams that will be generated by the expected take-up of this streaming VOD service. This is a monumental step forward for Zain in our journey to become the premier digital lifestyle provider in the MENA region.

iflix has done an exceptional job in spearheading the entertainment revolution in Asia and truly has an industry leading product. What distinguishes iflix is its constant innovation and commitment to offering its customers an exceptional and entertaining digital experience, which is at the heart of what Zain stands for.

On a management side, we have made a couple of changes recently:

First in KSA, we appointed Peter K. as the new CEO in January. We believe Peter K. is the right man to build on his predecessor. He has got the ball rolling very fast there and made a major impact there already. We are encouraged by the performance of Zain KSA in these first few months of 2017. We have also appointed a new CFO, Mehdi Khalfaoui in February, he was with Zain Group finance prior to this roll.

In Iraq, we appointed Ali Al Zahid as new CEO which was done at end of Jan 2017. Ali was the CCO in Zain Iraq prior to his appointment and he has an outstanding track record in one of Zain's most complex and challenging markets. Ali has a strong background in mobile technology, strategy and management, and in exploiting commercial data-related opportunities and we are confident he will revive the operation there. He will also focus on Kurdistan as we see lots of potential there.

Now, with that I'd like to hand over to Ossama to discuss the results in more detail. Thank you.

Ossama Matta: Thank you Scott, and good afternoon everyone.

As Scott covered the consolidated results for the year, I will do the same for our key operations.

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

For Q4 2016, revenues were stable at KD 80 million (USD 264 million), EBITDA increased by 9% to reach KD 42 million (USD 138 million) and net income jumped by 15% to reach KD 25 million (USD 83 million) compared to the prior period. This was mainly due to acquisition of leased lines, conversion of leased lines to higher use, cost optimisation programme and reversal of certain excess accruals.

For the full year 2016, revenues were stable at KD 322 million (USD 1.1 billion). EBITDA for the year increased by 2% in comparison to 2015, to reach KD 160 million (USD 531 million), with an impressive EBITDA margin of 50%. Net income for the year decreased by 5% Y-o-Y, to reach KD 90 million (USD 298 million) mainly due to higher depreciation and amortization.

Our data revenues (excluding SMS and VAS) represented 36% of total revenues.

Moving to slide 17, Zain Iraq, the current 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 3G network across all areas in Iraq.

The operator's customer base increased 14% Y-o-Y and reached 12.7 million. This base represents 27% (the highest) of the Group's total customer base at the end of December 2016.

The above-mentioned circumstances plus the negotiated settlement of USD 93 million (which Scott mentioned earlier) saw Zain Iraq's financial performance severely affected, with revenues for the full-year reaching USD 1.1 billion, a decrease of 11% Y-o-Y, with EBITDA reaching USD 394 million, down 18%, with a net loss of USD 5 million, down 104% Y-o-Y.

With the launch of 3.9G services at the beginning of 2016, data revenues (excluding SMS and VAS) grew by 21% Y-o-Y, which only represents 9% of the total revenues.

Zain Sudan which is on slide 18, 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 Q1 2016. It is unfortunate that the foreign currency translation impacted us there further, as the Sudanese pound fell by 60% against the USD (from 6.4 to 15.9 SDG/USD) in late 2016.

The operation serves around 12.5 million customers which grew by 6% Y-o-Y. The operator's customer base is the second largest within the Group, which represents around 27% of the Group's total customer base and contributes 20% of the total Group revenues as of December 2016 with an ARPU of USD 5.

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) mainly due to voice and data revenues. 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) mainly due to the increase in FX losses.

Foreign currency translation impact, for the full year 2016, cost the company USD 92 million in revenue and USD 38 million in EBITDA, and USD 42 million on net income. Most notably, net income was affected by USD 83 million due to currency variance loss in 2016, (Compared to USD 39 million loss in 2015)

Data revenues (excludes SMS and VAS) only represents 13% of the total revenues, reflecting a healthy annual growth of 42% (up 23% in USD terms).

Saudi Arabia which is on slide 19. The application of the new biometric registration requirements imposed by the country's Communications and Information Technology Commission impacted the Group's total customer base, having a drastic impact on the operator's customer numbers that totalled 10.7 million at the end of 2016.

For the 4th quarter specifically, the operator recorded significant improvements in its financial results, where revenues and EBITDA jumped by 8% and 21% respectively, driven by higher data revenues and better gross margins, EBITDA margin for the period reached 26%. Net losses for the period improved by 54% to reach USD 36 million, as compared with USD 78 million in Q4 '15.

For the full year 2016, the operator recorded a 2% Y-o-Y increase in revenues to reach USD 1.9 billion. EBITDA for the year improved by 10% to reach USD 479 million, despite the additional fees for the implementation of the new biometric systems (SAR 90 million) on account of better top line performance and improved gross margins. Despite the positive EBITDA performance and the license extension benefit of \$29m, net losses were relatively stable at USD 261 million, due to higher depreciation and finance costs.

The operator also witnessed a noticeable 36% annual growth in data revenues (excluding SMS and VAS), which represents 33% of total revenues.

As we mentioned earlier, the impact of Zain KSA's license extension, was the immediate reduction of its license fee amortization, which amounts to approximately SAR 433M (USD 115 million) per annum, in effect reducing the Company's net losses by the same amount. In 2017 Zain KSA will obtain a benefit SAR 433m from this change.

Going to slide 20 which is Zain Jordan. Despite a highly competitive and penetrated market, Zain Jordan managed to maintain its lead in the market with total customer base of 4.3 million as of December 2016, which grew by 5% Y-o-Y and represents 9% of the total Group customer base.

For the 4th quarter of 2016, revenues improved by 3% Q-o-Q to reach USD 120 million, while EBITDA and net income dropped by 38% and 48% to reach USD 61 million and USD 26 million respectively, mainly due to the reversal of data revenue share provisions in Q4, 2015.

For the full year 2016, revenues came better than last year by 5% to reach USD 483 million, EBITDA for the year dropped by 5% Y-o-Y to reach USD 240 million, resulting to EBITDA margin of 50%. Net income for the year reached USD 105 million down from USD 122 million last year.

Data revenues (excluding SMS and VAS) represents 34% of total revenues, this reflects an annual growth of 23%.

With that, I'll hand over to Mohammad for Q&A session. Thank you.

Mohammad Abdal: Thanks, Ossama. 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, can you please repeat your instructions?

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question please press * followed by 1 on your telephone keypad now. If you change your mind please press * followed by 2 and when preparing to ask your question please ensure your phone is unmuted locally and as a reminder, when asking your question please limit yourself to one each. There will be an opportunity for follow-up questions.

Our first question today comes from Madhvendra Singh from Morgan Stanley. Please go ahead.

Madhvendra Singh: Hi, thanks for the call. I just want to check on the settlement you had on the tax payment in Iraq. What was your net cash liability on that, how much you actually paid for that? And also if you could give some colour on the operational performance in Iraq in terms of the outlook; I think the fourth quarter did show some improvement quarter on quarter so is that trend sustainable? Thank you.

Scott Gegenheimer: The settlement for Iraq was USD 93 million, that's the amount that we had to pay in cash. We had some reserves for the year but the full impact in the cash settlement was USD 93 million on it. Again we ended up suing Iraqna, and we got back nearly USD 71 million from them so it offset some of that.

As far as operations in Iraq, it's been difficult times for us there for a lot of different reasons, whether it's ISIS and the issues we have there to rebuild our network there - we've still got about 300 sites off the air. We are continuing to put sites on and last year I think we put on, if I remember rite, 260 sites back on the air last year and we continue to build those out. It does take time for, even when the sites come back on, to actually have people back in the area and so it takes a little time to ramp up the revenue coming back from them so there's been a lot of people displaced in the country.

I do think the competition seems to be a little bit more stable there and last year, 2016, we've seen some price wars. We've seen people moving out of this with the competition so I expect to see a little bit more healthy revenue growth and driving some traction on some of the new offers and terms that we're pushing so we haven't given out specific targets but I do see that there's a lot of opportunity to continue to grow, specially on the data side. Data in

Iraq is quite low, I think it's about 14% of overall revenue so there's a lot of opportunity to continue to grow your business there. So I hope that answers your question, Madhi. Thanks.

Madhvendra Singh: Yes, thank you very much.

Operator: Our next question today comes from Nashit Lakhhotia from SICO. Please go ahead.

Nishit Lakhhotia: Yes, hi, thank you for the call. I'm following up on the Iraq, the payment that you've done and the amount that you've received. So does that mean that you'll be writing back or - the USD 70 million that you've received in this quarter? And also talking about the other cases that you have ongoing, as mentioned the annual report in Iraq in terms of the USD 62 million case regarding the sales which was there in 2011 and the remaining part of the capital gain where you have to pay in 49 instalments and also on the spectrum fees; is there any provision that you have made against any of these cases pending or this is something that if Zain is not able to get in its favour it will hit your P&L? So if you can just elaborate on that, thank you.

Ossama Matta: Yes, as Scott mentioned, we went after Orascom and we got USD 71 million. However, as you mentioned, there are still some tax issues related to income taxes in Iraq, related to Iraqna and some of it related to Athir, because of the way they have calculated the taxes. We will keep that USD 71 million to cover such taxes but nevertheless it doesn't mean that we are agreeing with the tax department because we are lobbying with the tax department because we think our case is just unfair.

On the USD 262 million, this is related to the five number ranges. Basically this case came back to us like more than five times, we win it and each time it comes back to us. It's split into two payments; USD 162 million which is the revenue share because the regulator is suing us that we did not pay the revenue share of USD 162 million related to the 5 numbers range, which is not true and they actually brought in an auditor and they looked at it and everything was proved to be correct; we have paid it. And the other USD 100 million is a penalty, which is outrageous, for using a number range they penalise you by USD 100 million so we have won this more than 3 or 4 times but they always come back.

Nishit Lakhhotia: Okay, so just to put my thoughts on this, you are saying you will not be reversing this provision but you'll be keeping this USD 70 million as provision for future income tax and capital gains, whatever legal issues you have on that part in Iraq, as a provision, and in terms of the USD 262 million case, you mentioned that on 15th January, that the CMC actually issued it in favour of the regulator, so Athir has basically appealed against it, so but there's no real provision on this particular claim that has been done on the books and also on the spectrum fees of USD 60 million. That's again Athir, the case was against it on 9th November 2016.

Ossama Matta: Right. Related to the USD 70 million, yes, I will keep that. It depends on the outcome of the discussion and the dispute resolution between us and the income tax department. The way they calculate the income tax is strange in the past years. They take the revenues, and apply an imputed profit of 40% and then they apply the tax rate on that so basically the net income margin in Iraq will be like 40% which is unheard of. The way we calculate is basically on the actual expenses, taking the revenue, actual expenses, take out the disallowed by tax department, apply 15% to the adjustable net income and then pay the income tax and we are actually paying it. So I don't believe that they have a case but we're going to keep the USD 70 million until we have the outcome from these discussions with them.

Regarding the USD 100 million out of the USD 262 million, we don't have a provision because we don't believe there is a penalty for this. Mind you that we had also a case regarding one number range and this case, we had a penalty which is around USD 300,000. On one number range they penalise us with USD 300,000; five number ranges, they penalise us USD 100 million, which is quite strange.

On the frequency, we are disputing it because they cannot go back retroactively and this is as per the law. That's why we are disputing it and we are not looking at provision for it because we believe in it. Thank you.

Nishit Lakhotia: Okay, thank you.

Operator: Our next question today comes from Karim Riad from EFG Hermes. Please go ahead.

Karim Riad: Hello, gentlemen, thank you for the call. Just one question from my side, if you could give us an update on the tower sale; which operation is the closest to conclude the deal, is it Kuwait or Saudi or any other operation for that matter? Thank you.

Scott Gegenheimer: Thanks, Karim. Regarding the tower sales, we're actively pursuing the tower sales in KSA and Kuwait, both of them are very close to finalising. The biggest issue is regulatory approval and this has taken a little bit longer. We were hoping that the regulatory approvals would have already been done by now but we expect it to happen in 2017. It's really hard to give you the exact quarter and date on it but we expect the regulatory approvals this year and then they'll be finalised and we'll make the announcements on it. Thanks.

Karim Riad: Thank you.

Operator: As a reminder, ladies and gentlemen, if you would like to ask a question please press * followed by 1 on your telephone keypad now. We have a follow-up question from Madhvendra Singh from Morgan Stanley. Please go ahead.

Madhvendra Singh: Yes, thanks. Just some questions on Sudan; given the extent of FX depreciation is there a risk that you might have to take another impairment on the business? And also how do you expect the margins will be impacted in Sudan because of the significant depreciation of the currency? Thank you.

Ossama Matta: We actually looked at the impairment and the impairment is done in the local currency and looking at the performance of the company there is no risk of impairment despite the devaluation.

Margins will be impacted. We expect revenues for 2017 to have an impact approximately at the group level consolidation because of the transition, around USD 400 million because you will have the full impact, the full year impact of the currency translation from 6.4 to 15.5 SDG/\$ as compared to 2016, which we only had two months (November and December). So yes, margins will be impacted in 2017. However we can see in other operations improvement, especially in Iraq so hopefully it will be compensating but it will not be compensating to the full extent. The good news is by June there will be another discussion related to the sanctions on Sudan by the US Treasury Department. This was the last resolution actually of the ex US President so we are hoping that if they lift up the sanctions on Sudan things will change dramatically. Thank you.

Madhvendra Singh: Can you share what is the percentage of dollar cost in Sudan of the overall opex?

Ossama Matta: The major contract that we have which is basically managed services; we changed it all to local currency but the base of it is linked to the inflation so because of the devaluation of the currency now we expect some inflation in the market and if it is above 3% then there is an additional cost on us and this we can see it in 2017. Most of the Opex in Sudan is in local currency but the major contracts are linked to inflation rate.

Madhvendra Singh: Okay, thank you.

Operator: Our next question today comes from Varula Kumahe from SICO. Please go ahead.

Varula Kumahe: Hi, this is Varula Kumahe from SICO. My question is regarding the net monetary gain of KD 30 million that you have recorded in the fourth quarter. Could you please explain the reason behind it?

Ossama Matta: Yes. This is related to adopting or applying IF29 which relates to hyperinflation. South Sudan proved to be a hyper-inflationary economy and we have explained that in the financial statement very clearly in notes 2.1, 2.2 and in note 32 in very detailed, and this is basically the net monetary assets and liabilities, the difference between net monetary assets and liabilities and applying the price factor which has resulted in a gain of

USD 82 million, approximately KD 30 million. You can have all the information in the financial statement but this is a result of applying the hyperinflation accounting.

Varula Kumanahe: So this has been effectively nullified by some other item because your operating profit for the year, for the fourth quarter is also around KD 30 million but this gain has been nullified by another side, right?

Ossama Matta: Yes, that's true because as we mentioned earlier, that we had to book approximately USD 90 million related to Iraq, capital gain tax, we had to pay that and it has impacted us. And we also have an impact from Sudan due to the devaluation that happened in November from 6.4 to 15.9 SDG/\$, which has also impacted us by USD 42 million.

Varula Kumanahe: On the exchange rate, official rate, FIT's still 6.5%, around that amount but, so if this applied, how do you see going forward, I mean, what is it really based on?

Ossama Matta: It is as per the Central Bank of Sudan. If you see in their website, there is a circular that they have, which they sent to all banks. Any dealing with currencies, foreign currencies between the banks or between individuals and banks will be the official rate, which is approximately 6.4, plus a margin which is around 130%. The reason they are doing this is to bridge, to reduce the gap between the black market rates and the official dealings with the banks but this is on their website; it says official rates plus a margin, which is around 130%.

Varula Kumanahe: I see, okay, thank you.

Operator: Our next question is a follow-up question from Nahish Lakhotia from Sico. Please go ahead.

Nishit Lakhotia: Yes, hi, Nishit here. I have one question on the cashflow; you've shown KD 56 million in provisions used under your working capital in operations cashflow. What exactly is this amount? If you can just elaborate on that.

Ossama Matta: This is mainly due to the settlement that we did with Bharti on the African operations that we sold. It was KD 39 million, related to Nigeria settlement and plus other tax settlements related to Africa. All of it is clubbed under this amount which is KD 52 million.

Nishit Lakhotia: Okay, and talking about settlement, you also have one arbitration regarding the Zain Saudi amount with the shareholders. Is there any update on that?

Ossama Matta: What we have disclosed is basically the update that we have and this is also disclosed in the financials. We won the arbitration in the London courts and now we are in the process of enforcing it in Saudi Arabia.

Nishit Lakhotia: Okay, thank you.

Operator: Our next question today comes from Talal Alzima from NBK Capital. Please go ahead.

Talal Althimas: Thank you, gentlemen, for having the call. I have couple of questions. First regarding Sudan, can you quantify the actual impact basically in terms of the full year expected trigger for 2017 or the quarterly? So if it was two months recognised and you got a loss for the entire year, would that mean that full year 2017 you're going to get loss from Sudan? Is your assets, which are mainly in hard currency, will there be a need for impairment given that the currency devalued, so the cashflows expected to generate in dollars is less so are there any impairments to be expected? Second, regarding your capex guidance and where 5G sites in and what are your guidelines in terms of capex revenues?

Ossama Matta: Regarding the devaluation in Sudan I mentioned earlier that the impact will be around USD 400 million if things stay as is, but we expect that the operation to increase its revenues by 15% so this will bridge the difference. But if you take things as is, as equal to 2016 there will be like USD 400 million of impact from the

translation and around USD 200 million on the EBITDA. On the impairment, I mentioned earlier that impairment is done on the local business and the business is doing exceptionally well, and we have done all the tests needed, auditors looked at it and there is no issue whatsoever on any impairment.

Talal Althimas: How are you going to increase the revenues by 15% in Sudan.

Ossama Matta: Zain Sudan is the market-maker in Sudan. If you have a study about Sudan market, Zain Sudan is the market in Sudan. As I mentioned earlier, we had 4G in Q1 of 2016, now it's going full-fledged. Data will be improving exceptionally. Market share in Sudan is 46% in terms of customer base but in terms of revenue share we are above 60% so yes, ARPUs as same as we did this year; if you see in SDG terms we actually increased in terms of revenues but unfortunately when you convert it to USD, it showed a drop to the dollars. Okay?

Scott Gegenheimer: Regarding Sudan's CAPEX it's a little difficult because normally we're trying to hold these guys at 15% of their revenue and decreasing that but Sudan, because the revenue's fallen so fast and the CAPEX doesn't fall as quick because we're paying in hard currency, so we're trying to squeeze them a little bit and try to figure out how to reduce the capital expenditures so we're taking this on a case-by-case basis down there so I don't expect a high CAPEX down there as most of the network's already been built out. There's single ran already over there in Sudan so the only thing we've been doing is adding a little bit of LTE service, we've got about 200 sites of LTE in Sudan, so I don't expect a lot more expenditures on LTE in there.

Regarding 5G, first off the standards aren't even set on 5G so we are doing some pilots in the region and a couple of opcos to look at what we're going to do with 5G but I don't see any major deployment across the region on 5G. You'll hear a lot of headline news saying we're doing this or we're doing that with 5G but in reality there's no proven business case on it. There's a lot of issues when it comes to 5G.

What you're going to see is a lot more growth in LTE so for me the road to 5G is paved with 4G and you're going to see a lot more carrier aggregation and right now you've seen even speeds that are gigabit speeds on LTE, which is equivalent to what you're seeing on 5G. The problem, I think, in this region also with 5G is you're talking about millimetre-wave technology and when you're doing that you can't have ubiquitous coverage across the whole country; you can't even have indoor coverage, you're going to have to have small cells everywhere because when you're up at, you know, 28GHz or above you can't even get through the first wall inside for indoor coverage so you have some significant problems with 5G. We just got back from Barcelona and everyone loved to talk about 5G and what we're doing with autonomous cars and all this kind of stuff but I don't see any significant revenues coming in from 5G for a while. But yes, we'll have some trials and we're going to be pushing speeds up to the gigabit speed because of LTE and carrier aggregation and this kind of stuff but we're doing some.

Talal Althimas: On a group level, what is your target? Like I know in Sudan you're targeting less but on a group level what is the target CAPEX to revenues, is it around 18% as you did in 2016 or expected to increase up a bit given that you need more expansions in Kuwait, like more fibres or towers.

Scott Gegenheimer: No. We're trying to shoot for 15% which is actually a reduction. We've got a couple of smart CAPEX programmes, trying to figure, making sure we're deploying it properly and we're also trying to streamline specially on the BSS, looking at the IT stack to try to pull out cost out of the operations on the technical side. So there's a lot of things that we're trying to do to reduce the cost. In the past, yes, because Sudan the revenue has dropped, our overall capex would go up but because of some of our smart CAPEX programmes that we're running here and some of the efficiencies that we're driving. We're trying to uniform, for instance, when we're looking at BTSes, looking at using one standard BTS across all the group, looking at civil work, having the shelters the same across the whole group in order to reduce some of our CAPEX expenditures dramatically so I expect probably 30% savings in capex going forward, which will bring down the overall capital expenditure to about 15%.

Talal Althimas: Okay, and sorry, if I may add one last question regarding Zain KSA, is there any risk of dilution if there were payables to the Finance Ministry converted into equity or anything of that sort? You know,

that's part of something that is looked at currently at Zain KSA so what is the take on that, in terms of dilution of Zain group?

Scott Gegenheimer: Generally for KSA, yes, there are some discussions with the Government regarding what to do with the receivables. No agreement has been made yet as to how we're going to handle this. We still had a seven-year loan for the revenue share, the 15% revenue share that we have with the Government. Right now we're got a very cheap loan from them so how we handle this and what we do; we're still under discussions on this so we don't have anything to announce at this time.

Talal Althimas: Okay, thank you.

Operator: As a final reminder, ladies and gentlemen, please press * 1 to ask a question. We have a question on the line from Maha Soueissy from Schroeder's. Please go ahead.

Maha Soueissy: Hi, gentlemen, thank you for hosting this call. If you could just tell us a bit more on Kuwait, the competitive environment, what's happening there in terms of sales, just a quick summary of your expectations for 2017, please.

Scott Gegenheimer: Kuwait is a very competitive market. I think in the last call we talked a little bit about what we've seen, especially as the handset subsidies have come down dramatically. We didn't see nearly as much handset subsidies on the iPhone 7 and so we've been pushing the market to do more, either payment terms or getting rid of the subsidies. We've had, in the past on the balance sheet a high number for the handset subsidies that we're amortising and this has come down dramatically as well over time so going forward the growth really is going to come from other areas so we've been focusing heavily for instance on enterprise. Internally we've already broken out the division. Regionally the enterprise was inside the commercial division and there was no real separation between consumer and enterprise so we've actually broken it out in a subdivision, brought in a chief for the enterprise as well and we think there's a lot of opportunity and growth in the enterprise space.

We've also recently just won - the MEW, the Ministry of Electricity and Water has just awarded us about KD 22 million (USD 72 million), related to the smart metering in this country and we're working with NexGen as well on this, to try to roll out smart meters in this country and so we expect that's one of the first projects kicking off in the region for smart cities and specially the smart metering type and we expect a lot of opportunity both in Kuwait and also in other parts of the region.

So we do expect to see a lot of upside and things that are outside of our core business. The core business we're already 60% of the overall profitability in the country so I don't necessarily think that you can really grow that as much as what we'd like in the past because we're heavily focusing on the data side and it's more about customer retention and customer experience to really drive, to continue driving our revenue and the incremental growth will come from new revenue streams. Hopefully that answers your question there.

Maha Soueissy: Yes, perfect, thank you so much.

Operator: Our next question today comes from Saoman Aohawawi from Almarai. Please go ahead.

Saoman Aohawawi: Yes, thank you for this call. I have a question; do you think there is any positive impact in IFRS implementation in Zain KSA?

Ossama Matta: Yes, because moving from the SOCPA to the IFRS we are now going into this exercise. We still don't have full clarity about the impact but I don't expect that it will be major; we are in the study phase and the implementation phase.

Saoman Aohawawi: Is there any plan to convert debt to equity in Zain KSA?

Ossama Matta: It's still in discussions internally with the board at KSA and the board at Zain Kuwait as we have different options for capital restructuring that will include also the possibility, the Ministry of Finance as well as going to the public; still we have many options on this. We haven't concluded on what option we will proceed. Most likely we're going to get back to you on this in the second quarter. By the end of second quarter we will definitely have an announcement in the market for Saudi.

Saoman Aohawawi: Yes, thanks.

Operator: Our final question today comes from Nashit Lakhota. Please go ahead.

Nishit Lakhota: Yes, just a final follow-up question; this is on the Kuwaiti market. In terms of competition, I've seen that there's some level of rationalisation or lower intensity of late between the three operators, specially on the prepaid offering so are you seeing that, you know, in terms of competition becoming lesser than what it was up until 3Q in the last few months, any thoughts on that?

And you also mentioned that there were certain accruals in Kuwait in 2016. Which quarter was it? And if you can quantify what level of accruals it was. And finally on the tower sale in Kuwait, if you can give us any more data on how many towers are there that being considered under this or any more information that you can share more on this transaction in terms of the size of this transaction if it happens post regulatory approval? Thank you.

Scott Gegenheimer: First on the Kuwaiti market overall, including prepaid and post, I think generally you're seeing a little bit more sensibility coming into the market and not being so aggressive with all the competition. So we've also spent a lot of time trying to segment the market so that we're not really competing on headline parsing but as long as you start to see the subsidies come down quite a bit I think a lot more sensibility come to the market and you won't see these price wars and subsidy wars that we've seen in the past. And that seems to be holding a little bit and I think around the whole region people are starting to look at this and some of these players we can beat them in multiple regions so if you look at the competitors in Iraq; you know, it's the same operations we compete against and I think overall they're looking at each of these markets and trying to figure out how they continue to drive their revenue growth and so getting out of price wars and getting out of the heavy subsidies is a priority, I think, for most of the groups in this region. So we've said cooler heads have prevailed and so I don't expect any major changes going forward on there.

Regarding the towers, we haven't announced specifics on the towers but yes, we're looking at selling all of our towers off but we haven't announced the amount or the number of towers on there but it would be a sale of all of our towers in Kuwait and in KSA as well but we haven't publicly given any numbers on it but I would think in Q2 we'll come back with some details around the amount that we expect to raise and the number of towers that we're selling off so we'll come back to you on that one.

Ossama Matta: On the reversals, this has happened actually in Q4. Part of it; we look at the balance sheet, clean up all the liabilities, excess accruals. This has happened in Q4. Part of it also on bonuses, reducing the provisions on bonuses, some end-of-service indemnities; also some related to the collection from the agencies, accruals related to that; we clean up all of this. All these were booked in Q4 of 2016.

Nishit Lakhota: Is there a number on this?

Ossama Matta: Actually we do this clean-up every year, and it's not that significant but it has an impact in terms of the margin, but we do it usually at the end of the year every year. Okay

Nashit Lakhota: Okay, thank you.

Operator: We have no further questions on the phone lines so I'll hand back to you, Mohammad.

Mohammad Abdal: Thanks operator, please refer to the Investor Relations website for additional updates and feel free to contact the IR team for further information. We look forward to your future participation in

our Q1 2017 update, the date for which we will announce in the forthcoming months. Meanwhile, thank you all for your continued interest in Zain.

Have a nice day.

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