ANNUAL REPORT 2016

BRINGING TOGETHER

bh.zain.com

A WONDERFUL WORLD

His Royal Highness
Prince Khalifa Bin Salman Al Khalifa
The Prime Minister

His Majesty
King Hamad Bin Isa Al Khalifa
The King of the Kingdom of Bahrain

His Royal Highness
Prince Salman Bin Hamad Al Khalifa
The Crown Prince
Deputy Supreme Commander
First Deputy Prime Minister

CONTENTS

Harnessing the power of nearly one million connected users, Zain Bahrain serves as an agent of growth by creating personal and meaningful networks across the Kingdom to shape a future where people are closer together.

Proudly supporting the local economy since 2003, Zain Bahrain's role as a telecommunications operator lies at the heart of professional and social lives in Bahrain. Whether it's corporations seeking business investments, friends making holiday plans, or individuals enjoying their favourite shows, Zain Bahrain breaks through traditional and technological boundaries to facilitate the digital future of connectivity that we have all been dreaming of.

Vision, Mission and Values

Vision

To become the Kingdom of Bahrain's telecommunications leader, offering care to all its stakeholders and supporting their lifestyles

Mission

To provide the Bahraini market with quality telecommunications services centered on excellent customer care, and managed by believers in the Zain brand promise, who are empowered, self-motivated and caring

To develop a people centric organization which cares about others

Values

Zain subscribes to a set of core values that define its desired organization culture and brand image. These core values are:

Radiance - Leading the way with imagination and vision; bringing joy, color and richness to your life

Heart - Living your life with courage; engaging your spirit; touching your emotions; connecting to your soul

Belonging - Bringing fellowship and community to all; transcending cultural and geographical boundaries

KEY HIGHLIGHTS

Revenue

64.6
MILLION
BD

EBITDA

24.8
MILLION
BD

EPS

12
Fils

Dividend Distribution

5
Fils

971,000

CUSTOMERS

Total Assests

118

MILLION

BD

Total Dividend Distribution

1.8

MILLION

BD

Total Equity

65.3

MILLION

BD

Net Profit

4.3

MILLION

BD

A word by the chairman of the board of Zain

"We expect to triple our network's capacity in the coming years to accommodate a greater amount of data traffic and further enhance user experience."

On behalf of the Board of Directors, I have the pleasure of presenting the audited financial statements for Zain Bahrain for the year ending 31 December 2016, which saw steady growth and a further strengthening of future prospects for the company.

Our Strategy

During 2016 we continued to successfully implement our current strategy which focuses on the three pillars of excellence in customer experience, building data growth and operational efficiency across all areas of the business. As our customers embrace an increasingly digital lifestyle, Zain Bahrain aims to offer them the means to experience it in the best way possible, creating added value for our shareholders along the way.

Operational and Commercial Review

Zain Bahrain observed record-breaking growth in 2016 in its customer base, serving 971,000 active customers as of 31 December 2016, a 22% surge compared to the previous year. This growth can largely be attributed to first-to-market new products, which prompted our competitors to follow suit with similar offerings, as well as innovative value added services that provide content and convenience for consumers to enjoy. Zain Bahrain also further invested in its infrastructure, upgrading its fixed wireless network from WiMax to TD LTE and expanding site coverage by 35%, which resulted in a 450% increase in speeds. We expect to triple our network's capacity in the coming years to accommodate a greater amount of data traffic and further enhance user experience.

Financial Indicators

Zain Bahrain has remained confidently profitable in the face of challenging market conditions and fierce competition. We consistently delivered innovative offers and a superlative customer experience, which has translated to a growing market share concurrent with steady operating profitability. We recorded revenues of BD 64.6 million this year, as a result of the remarkable increase in our customer base, with an EBIDTA of BD 24.8 million and a net profit of BD 4.3 million for the year.

Proposed Dividend

Zain Bahrain's focus on operational excellence, which resulted in a very healthy EBIDTA Margin of 37.6%, has enabled us to reward our shareholders with consistent dividend payouts. The Board of Directors will recommend to the Annual General Assembly of Shareholders a full year cash dividend of BD1.84 million (US$4.87 million), at a value of 5 fils per share.

"Zain Bahrain observed record-breaking growth in 2016 in its customer base, serving 971,000 active customers as of 31 December 2016, a 22% surge compared to the previous year. This growth can largely be attributed to first-to-market new products..."

Outlook for 2017

Zain Bahrain excelled in 2016 in spite of the challenges posed by a highly competitive market with a penetration rate of over 190 percent. We achieved this by remaining focused on superiority in customer experience and on our core value of innovation. We expect that this will continue to serve us in the years ahead as we develop further unique offerings that take full advantage of our world class technological capabilities, and offer our customers the modern, high tech lifestyles they demand. Zain Bahrain also remains committed to achieving high standards of corporate governance, thus assuring business integrity and maintaining our shareholders' trust.

Ahmed Bin Ali Al Khalifa
Chairman

General Manager's Statement

"Zain Bahrain offers a complete digital lifestyle; being a Zain Bahrain customer means you have access to the latest products and technology, as well as superior content to enjoy it with."

In today's fast paced global economy, being at the cutting edge of innovation is not a choice, but a business necessity critical to survival and success.

In 2016 Zain Bahrain continued to lead the market in introducing new products that took full advantage of our enhanced infrastructure capabilities. We remained profitable throughout the year despite heavy investment in developing these offerings and bringing them to market. The strategy paid off, rewarding us with an increase in market share that brought our customer base to record breaking new heights. By year end, our customer base stood at 971,000, a 22% leap over the previous year.

New customers joined and lapsed ones returned to the fold because they understood that Zain Bahrain's proposition doesn't merely sell a product, but instead offers a complete digital lifestyle; being a Zain Bahrain customer means you have access to the latest products and technology, as well as superior content to enjoy it with.

Among the highlights of the year were our game changing 'Truly Unlimited Social Media' prepaid and postpaid plans, which launched the trend in the local market for unlimited data for social media users. Our early mover advantage, backed by a sophisticated marketing push aimed primarily at younger customers, helped Zain Bahrain grab a significant share of this segment.

Cementing tie ups with other customer focused partners and content providers, we delivered a number of unique offerings to help customers seamlessly integrate their online and offline activities and enjoy a more powerful overall experience. These included a partnership with leading regional and global service providers.

The enterprise segment also offers enormous potential for future growth, and Zain Bahrain is geared to tap into this with integrated value propositions for government institutions, corporations of all sizes, and small and medium-sized enterprises (SMEs). By providing a strong backbone for business in the Kingdom, we hope to play a major role in helping Bahrain achieve its Vision 2030 objectives.

These ambitions and more are made possible through our cutting edge 4G LTE network, the most modern in the country. In 2016, we upgraded our fixed wireless network to TD LTE technology, and continued our ongoing investment in strengthening our network coverage. In light of the 125% spike in mobile data consumption over the year, and recognizing the importance of data to the future growth of the telecommunications industry, Zain Bahrain also enhanced its 3G mobile network.

"The enterprise segment also offers enormous potential for future growth, and Zain Bahrain is geared to tap into this with integrated value propositions for government institutions, corporations of all sizes, and small and medium-sized enterprises (SMEs)."

Taking its lead from Zain Group, Zain Bahrain upgraded its corporate social responsibility initiatives to a more sophisticated corporate sustainability programme that will create a longer term positive impact on both our company and the local community. Many of these activities aim to identify and nurture the Kingdom's human capital. Zain Bahrain's leadership in this area was recognised by the Government of Bahrain, through the Ministry of Labour and Social Development, which signed a key agreement with us to collaborate on a number of projects to help young students and job seekers.

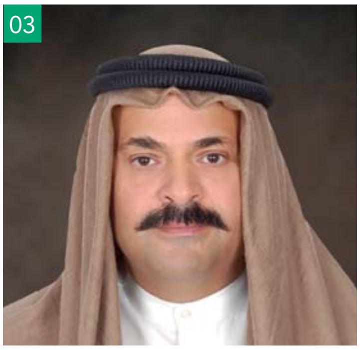
The concept of innovation is deeply embedded within the culture and core strategy of Zain Bahrain. This allows us to take action in a dynamic environment, differentiate ourselves in the market, and plan for the future. The year 2017 will bring further product innovations and use of our market-leading technological capabilities, all ultimately aimed at adding value to our customers' lives.

Mohammed Zainalabedin
General Manager

BOARD OF DIRECTORS

01


02


03


04


05


06


07


01. Shaikh Ahmed Bin Ali Al Khalifa (Chairman)

Non-executive / non-independent

Shaikh Ahmed Bin Ali Al -Khalifa serves as the Chairman of the boards of DHL International Bahrain W.L.L., DHL Aviation W.L.L., and MENA Aerospace Enterprises W.L.L. He has also been Chairman of the board of MENA Aerospace Enterprises W.L.L. since its establishment in 2004. Shaikh Ahmed Bin Ali Al Khalifa has also been the Chairman of Muharraq Club since1989 and prior to that he was the Vice Chairman of the club from 1978 until 1988.

02. Mr. Asaad Ahmed Al Banwan (Deputy Chairman)

Non-executive / non-independent

Mr. Asaad Ahmed Al Banwan started his career with the Kuwait Foreign Trading Contracting and Investment Company (KFTCIC, now known as the Kuwait Investment Company), where he became a Senior Vice-President in 1996. He then took over as the Deputy General Manager of Wafra International Investment Company in Kuwait, serving from 1996 to 1999. Mr. Al Banwan was also Vice Chairman and Chief Executive Officer of National Investment Company in Kuwait from 2000 until 2012. Prior to that, he was Chairman and Managing Director of National Investment Company from 1999 and Managing Director and Member of the Board of Directors since 1996. In addition, he is a Member of the Board of Directors of several regional and international companies. Mr. Al-Banwan was appointed Chairman of Mobile Telecommunications Company K.S.C.P (now known as Zain Group) in March 2005. Prior to that; he was Vice Chairman and a Member of its Investment Committee. He is also the Chairman of the Kazma Sports Club. He holds a BSc in Finance and Administration from the University of Kuwait.

03. Shaikh Rashid Bin Abdulrahman Al Khalifa

Non-executive / independent

Shaikh Rashid Bin Abdulrahman Al Khalifa has been Managing Director of Mi'mar Architecture & Engineering since 1992. Prior to that, he worked with the Bahrain Defense Force, holding the position of Director of Military Works from 1982 to 1991 and Head of Engineering Department from 1978 to 1980. Shaikh Rashid holds a BSc in Architectural Engineering from the University of Cairo, Egypt, a Master's in City Planning from Howard University, USA, and an Advanced Management Program certificate from Harvard University, USA. He is a registered member of the Committee for Organizing Engineering Professional Practice (COEPP), American Institute of Architects and the American Planning Association.

04. Mr. Waleed Abdulla Al Roudan

Non-executive / non-independent

Mr. Waleed Abdulla Al Roudan joined the Kuwait Investment Authority (KIA) in 1986 and held several positions until he was appointed Manager of Investments – General Reserves in 2006. This area of the KIA manages local and Arab investments in companies and funds in which the KIA is a shareholder or a unit-holder. He also represents the KIA on the boards of companies where it is a shareholder. Apart from being a Member of the Board of Zain Group Mr. Al Roudan holds a BSc in Economics from the University of Kuwait. Mr. Al Roudan was elected Member of the Board of Zain Group in the year 2011.

05. Mr. Jamal Shaker Al Kazemi

Non-executive / non-independent

Mr. Jamal Shaker Al Kazemi serves as Chief Executive Officer and Chairman of Shaker Al Kazemi & Sons. He is also a Board Member of Ahli United Bank and Vice Chairman of MarsaAlam Holding Company. Mr. Al Kazemi was elected as a Member of the Board of Zain Group in 2010. Mr. Al Kazemi has also been Chairman of Al Arabi Sporting Club since 2000.

06. Ms. Shaikha Khalid Al Bahar

Non-executive / non-independent

Ms. Shaikha Al Bahar is the Deputy Chief Executive Officer of National Bank of Kuwait (NBK) Group, the largest financial institution in Kuwait and one of the largest banks in the Arab world. She has been the CEO of NBK Kuwait since 2010. In addition, she is Chairperson of National Bank of Kuwait (Lebanon) and NBK Capital, and Member of the Board of the Turkish Bank. She is specialized in large and structured finance transactions in Kuwait and the region and is also in charge of relationships with domestic and regional corporate and institutional clients, and international corporates doing business in Kuwait. Other responsibilities include the Trade Finance Business and relationships with local, regional and international banks. She also has first-hand involvement in bank's strategy, planning and branding. Ms. Al Bahar enjoys an extensive experience in privatization, project finance, advisory services, bond issues, build/operate/transfer financing, initial public offerings, global deposit receipts programs and private placements. She has been involved in Kuwait Investment Authority's (KIA) privatization deals since 1994.

07. Mr. Ali Al Khaja

Non-executive / independent

Mr. Ali Hasan Al Khaja has a wealth of experience across various sectors and was the driving force behind the launch of the world's first Customer Service Transparency Standard, an international qualification standard for the services sector. Mr. Al Khaja is a technology entrepreneur and a holder of several patents in both the USA and across the EU in the areas of e-commerce and m-commerce. He is also a passionate innovator, developing a mobile transactional patent and innovative cloud services with an aim of further developing the customer care industry across the Middle East. Mr. Al Khaja began his career in the hospitality industry before entering the telecommunications sector. He holds a Diploma in Hospitality.

CUSTOMER GROWTH

CONNECTING THE KINGDOM

Customers

971,000

Customer growth

Connecting the Kingdom

The future is a connected world, where individuals can interact with potential business associates, fellow gamers on the other side of the planet, and even their home appliances… perhaps even all at the same time!

Customer growth – Connecting the Kingdom

Zain Bahrain's customer base hit record heights in 2016, edging closer to the 1,000,000 milestone as the operator continued to bring to market innovative products and services which help keep people connected. The company also benefited from growing awareness among the public of the strong connectivity and speeds of Bahrain's most technically advanced 4G LTE network.

Customer numbers increased by 22%, jumping from 795,000 at the beginning of the year to 971,000 at its close. Zain Bahrain also witnessed a 125% leap in data consumption over the course of the year, a trend which is set to increase exponentially as new applications are introduced and the Internet of Things (IoT), virtual reality (VR), and artificial intelligence (AI) become commonplace. The future is shaping up to be an increasingly connected world where individuals can simultaneously conduct meetings with business partners, compete against fellow gamers on the other side of the planet, and control their home security cameras and coffee machines, all from a single platform.

Harnessing the power of social media

Zain Bahrain is capitalizing on this data explosion by delivering an affordable and compelling digital lifestyle experience to individual and enterprise customers.

In 2016, Zain Bahrain became the first operator in the country to offer 'Truly Unlimited Social Media' prepaid and postpaid packages, which provide customers with unlimited access to the most popular social media applications, including WhatsApp, Instagram, Facebook, Snapchat, YouTube, Twitter and others. This unique offering became the next major trend in the Kingdom's telecommunications landscape, radically changing customer expectations of their service providers.

Enterprise connectivity

The right partnerships can help a business grow and become more productive. Zain Bahrain makes this possible through its sophisticated enterprise solutions.

Zain Bahrain hosted the second annual Zain Group Business-to-Business (B2B) Forum in Bahrain, where senior executives from group companies across the world discussed how to grow market share in the enterprise segment, which includes government, corporate, SME, and small office and home office (SoHo) customers. The B2B segment represents tremendous growth opportunities as the MENA region lags behind international markets, where inter-company business accounts for more than 20 percent of overall revenue. Zain Bahrain hopes to bridge this gap by offering innovative new solutions that bring businesses closer to each other.

At the Group level, Zain recently made strategic investments in smart city consulting firm, neXgen and mobility solutions developer and consultancy firm, FOO, as well as entering into agreements with world leading technology solutions providers.

The customer connection

Zain Bahrain's outstanding customer care continues to win international acclaim. At the 2016 Middle East Call Center (MECC) Conference in Dubai, Zain Bahrain's best-in-class customer experience was recognized once again with a Best Voice of Customer Program award.

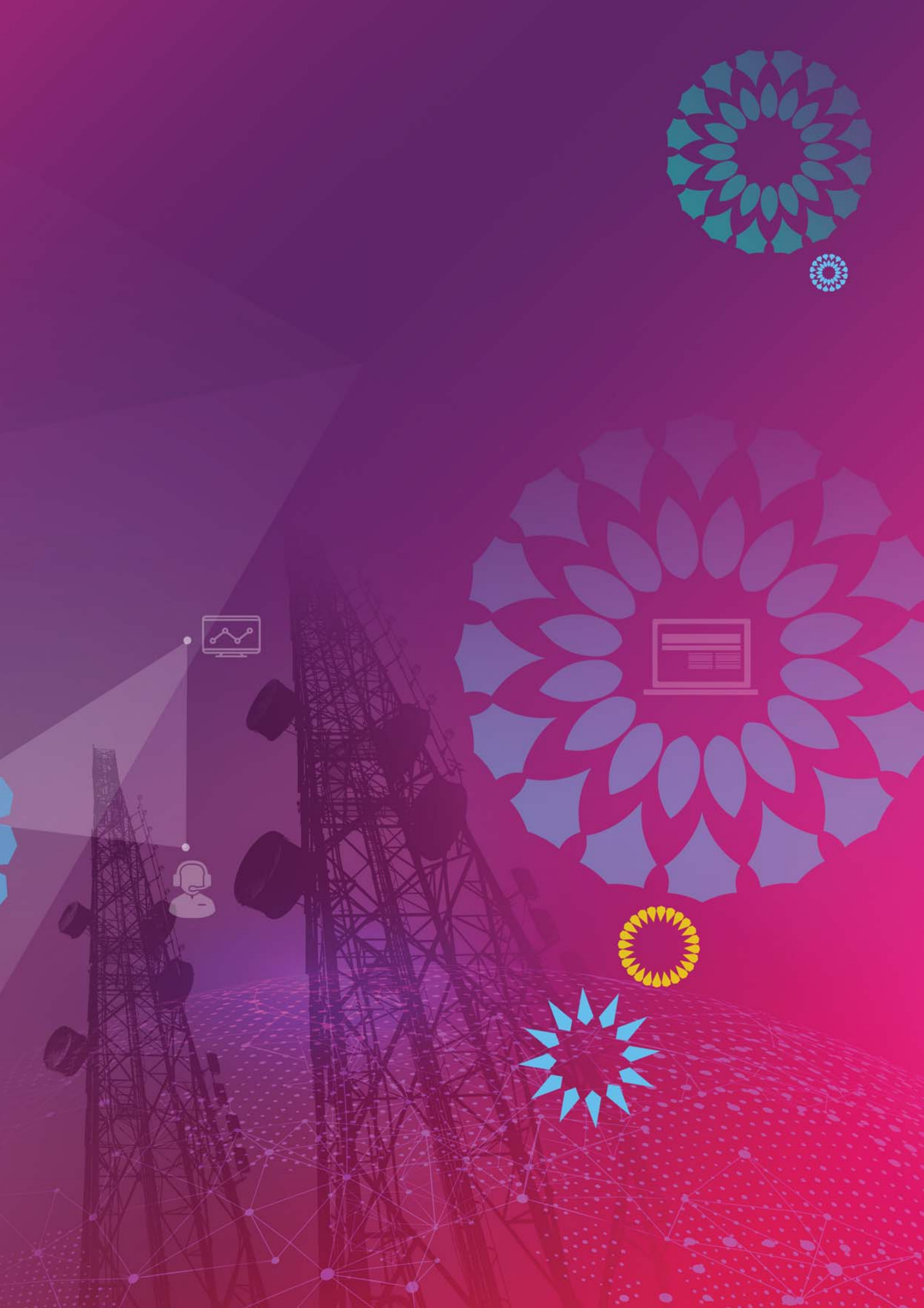
Zain Bahrain struck strategic partnerships with numerous high-profile names such as Bahrain Duty Free, ICFLIX, MBC Group, Google Play Store, Booking.com, Uber, and the Ritz-Carlton, bringing customers and enterprises together in innovative ways, and affirming the operator's commitment to being a catalyst of the digital revolution in Bahrain.

TECHNOLOGY

INNOVATION AND GROWTH

312TB

DAILY DATA USAGE



Technology

Innovation and Growth

Mobile data consumption surged by 125% over the course of 2016 and is set to increase further with the advent of new applications. Zain Bahrain's technological infrastructure was enhanced to ensure continued delivery of breakneck speeds to customers as their data consumption grows.

Technology – Leading the digital revolution

Zain Bahrain responded to the rise in customer numbers during 2016 by upgrading its infrastructure to accommodate higher data consumption and anticipate future demand.

A future-ready network

Zain Bahrain's fixed wireless network was upgraded from WiMax to TD LTE and expanded by 35% so that broadband customers could enjoy better indoor coverage and higher speeds, boosting the peak throughput of each cell by 450%, from 40 Mbps to 220 Mbps. New sites were also added to enhance the 3G and LTE mobile network coverage across the Kingdom in anticipation of expected future data growth in one of the most connected countries in the world. Mobile data consumption surged by 125% over the course of 2016 and is set to increase further with the advent of new applications. In all, daily data usage jumped 115% from 145TB to 312TB. Zain Bahrain's fibre infrastructure was doubled to ensure that the operator will be able to continue delivering breakneck speeds to customers as their data consumption keeps on growing. A high end IMS based next generation Core Network was introduced to provide better call quality for fixed and enterprise customers.

Apple's much-awaited iPhone 7 and iPhone 7 Plus handsets, bundled with Zain Bahrain's market-leading 'Truly Unlimited Social Media' packages, proved so popular that they were completely sold out across the country within a matter of hours. Earlier in the year, Zain Bahrain saw a similar upswing in customer demand with the launch of the cutting edge Samsung S7 and S7 Edge.

PEOPLE

THE ZAIN FAMILY

Almost

90%

Bahrainization

People
The Zain Family

Zain Bahrain's expertise in nurturing human capital was officially recognised by the Ministry of Labor and Social Development, which signed a Memorandum of Understanding (MoU) with the operator to collaborate on a number of projects.

The People of Zain

Zain Bahrain's ethos of Radiance, Heart, and Belonging guides all its employees, from client-facing customer experience staff to behind the scenes technicians, in their quest for personal and professional excellence. It allows them to come together in a spirit of collaboration and put their best into what they do, so that they can consistently deliver innovative products and outstanding service to customers.

Investing in people

Designed to keep employees engaged and motivated to serve customers more effectively, Zain Bahrain's best practice human capital policies, which have resulted in an almost 90% Bahrainisation rate, were recognized at the highest levels. In October, the Ministry of Labor and Social Development signed a Memorandum of Understanding (MoU) with the operator, launching a range of collaborations including training and career coaching for Ministry recruiters, and the development of a personality-based aptitude test to help job seekers assess their abilities and choose suitable career paths. Zain Bahrain General Manager Mohammed Zainalabedin and Minister of Labour and Social Affairs Jameel bin Mohammad Ali Humaidan penned the agreement, which follows Zain Bahrain's successful partnership with a number of local universities, through which the operator launched several initiatives to help students better compete in the market. Earlier in the year, the ministry had also honoured Mr. Zainalabedin with the Best CEO Award at its Annual Labour Awards ceremony.

Zain Bahrain's innovation in managing its people was also acknowledged by several major awarding bodies. It won the top prize at the prestigious GCC Best Employer Brand Awards in Dubai. It also received the Best Human Resources Innovation Strategy Award from the Anatolian Inventions and Inventor Association (ABDER), Turkey.

Employee empowerment

Zain Bahrain rolled out an innovative mobile learning (m-Learning) and augmented reality (AR) training programme that enables its employees to access learning materials on-the-go via their smartphones, laptops, or tablets. Employees are able to scan information using

their devices while going about their daily lives. These techniques are among the most advanced and futuristic educational technologies available today, and they hold enormous potential not just for Zain Bahrain employees, but also, in the future, for customers across the Kingdom of Bahrain.

Zain Bahrain hosted the third edition of the annual Zain Knowledge Week for its employees and select community stakeholders, the highlight of which was a seminar by renowned US-based guest speaker, Dr. Hitendra Patel. The seminar focused on innovation as a means of achieving rapid growth by attracting the best employees, partners, customers, and shareholders. Knowledge Week also featured a number of Bahraini entrepreneurs who have excelled in their enterprises.

Zain Bahrain views its responsibility towards its employees as an extension of its responsibilities towards the wider community. By grooming staff for excellence, Zain Bahrain is creating community leaders who will have a positive impact on society as a whole.

ZAIN

CREATING CONNECTIONS

724,000

Refugees in Jordan will be provided with free high-speed internet connectivity for the next five years

Zain Bahrain
Creating Connections

Taking its lead from Zain Group, 2016 saw Zain Bahrain shift its focus from traditional corporate social responsibility to a more sophisticated corporate sustainability strategy focused on three core pillars, Innovation, Thought Leadership and Youth Empowerment.

Zain Bahrain in the Community

Networking, both virtual and personal, is at the heart of Zain Bahrain's business and culture, and by providing platforms that help bring people together, its activities as an operator become indelibly linked to the community it serves.

Taking its lead from Zain Group, the year 2016 saw Zain Bahrain shift its focus from traditional Corporate Social Responsibility (CSR) to a more sophisticated Corporate Sustainability (CS) strategy focused on three core pillars: Innovation, Thought Leadership and Youth Empowerment. This new approach gives its community activities direction that benefits both Zain Bahrain and the wider public. These returns can then be reinvested to create a self-perpetuating, virtuous cycle of giving.

Initiatives such as these touch on all three of the operator's corporate sustainability pillars, helping to support both the economy and the local community.

Developing talent

This year's Future University Network (F.U.N.) Program, part of an ongoing strategic partnership between Zain Group and the United Nations (UN), saw 11 trainees assigned to various Zain Bahrain departments. They also participated in UN-led educational workshops, collaborating on projects aimed at tackling UN Millennium Development Goals. In 2016, Zain Bahrain signed a partnership agreement with AIESEC, the world's largest youth-run organization, with the aim of fostering youth empowerment and development.

Creating future leaders

Zain Bahrain supports entrepreneurship in a number of ways, helping small and medium sized businesses grow to become the market leaders of tomorrow. Entrepreneurs are invited to Zain Bahrain's training and development courses to share their experiences and learn. These in-house events often feature a 'who's who' line up of guest speakers.

Zain Bahrain provides voice and data packages and support hardware tailor-made for startups with low cash flow, which are often showcased at events such as Tamkeen's 'Kun Muntijan' workshop for micropreneurs. For years, the weekly event 'Khameesna Zain' ('Zain Thursdays') has been showcasing local start-ups at the operator's Seef headquarters, inviting them to sell their products or set up stalls. Zain Bahrain is also a sponsor of Startup magazine, with whom it hosts Startup evenings, a community event that features keynote speakers who share their success stories and provide advice to their fellow entrepreneurs.

Zain Bahrain was instrumental in helping two Bahraini teams participate in the semi-finals of the MIT Enterprise Forum Arab Startup Competition. The regional competition, of which Zain Group is a key facilitator, was held in Jeddah this year with prize money exceeding US$150,000. Zain Bahrain organized the local legs of the event's roadshows to drum up support and raise awareness.

Zain Bahrain continued its support for the youth of Bahrain and for education for sustainable development (ESD) through a BD25,000 payment to the Zain Bahrain E-Learning Center at the University of Bahrain (UoB), which is one of Zain Bahrain's key corporate sustainability initiatives that has contributed to the education of tens of thousands of Bahraini students. More than half a million Bahraini dinars have been donated to the center over the last twelve years.

Zain Bahrain partnered with the Nasser bin Hamad Foundation to support the Bahrain Merida cycling team, which will represent Bahrain in cycling tournaments worldwide. Furthermore, Zain Bahrain continued its support of the Bahrain Bowling Association, organizing a national bowling tournament to coincide with the Kingdom's National Day celebrations.

Zain Bahrain is leading the social media revolution by organizing workshops to teach budding entrepreneurs how to increase their visibility. It also hosted events for the Social Media Club throughout the year and lauded local social media celebrities as part of a 'Positive Influencers' contest that falls in line with its Thought Leadership pillar. Zain Bahrain received an award from the Minister of Foreign Affairs in recognition of its continuous support of the Club and its activities.

Under the DreamZ initiative launched this year, Zain Bahrain offered its own social media channels as a platform for the Kingdom's young achievers to share their aspirations. This served as a virtual networking platform for like-minded individuals to collaborate and bring their ideas to fruition.

Environmental sustainability

Zain Bahrain launched the third edition of its annual National Mobile Phone and e-Waste Recycling Campaign in cooperation with the Supreme Council for Environment (SCE), the United Nations Industrial Development Organization (UNIDO), and the United Nations Development Programme (UNDP). The campaign educates the public, particularly youth, about the dangers of improperly disposing of electronic waste, particularly batteries. This year's edition introduced competitions between schools to collect the most electronic waste and create awareness campaigns about the safe disposal of old devices. Two winners were selected jointly by the SCE, UNIDO, and Zain Bahrain, and received cash prizes from the operator.

The Zain Bahrain nature walkway, a serene 250-metre long tree-lined path, was inaugurated at Al Areen Wildlife Park as a permanent attraction for visitors to enjoy. The picturesque walkway, which crosses the park and leads to the zoo and other attractions, adds to visitors' enjoyment while also making the park more environmentally sustainable.

Zain Bahrain lent a supporting hand to the 'Nasayem Al Bahrain' Festival, held at Riyadat Mall in A'Ali, which showcased home-grown gardening and agricultural products with the aim of promoting a greener, fresher and more sustainable Bahrain.

Giving back to the community

Zain Bahrain's Ramadan campaign, "Iftaar Saem", saw Zain Bahrain volunteers distributing meals to lower-income workers and families, the handicapped and orphans, as a way of giving back to the public. Zain Bahrain customers supported the initiative by sending SMSs, each of which made a BD 1.5 donation on their behalf.

At the Group level, Zain Bahrain announced a collaboration with the United Nations High Commission for Refugees (UNHCR) and Facebook to provide free high-speed Internet connectivity to more than 724,000 refugees in Jordan for the next five years. Zain Group also rolled out a social media awareness campaign to support the United Nations' 17 Global Sustainable Development Goals. The campaign was launched on Facebook, Instagram, Twitter, LinkedIn, and Google+, under the hashtag "#Bethevoiceofchange".

As a telecoms provider, Zain Bahrain brings together the power of technology and networking in a spirit of collaboration. It partners with key stakeholders, both private and governmental, to create lasting change and foster creativity and innovation for a brighter future.

CORPORATE GOVERNANCE

Overview

Zain Bahrain BSC ("Zain Bahrain" or "Company") is committed to the universal corporate governance practices and regulatory requirements. Its commitment to achieving the highest standards of corporate governance is reflected by its approach which embraces the governance principles outlined by the Central Bank of Bahrain ("CBB") and the Ministry of Industry, Commerce and Tourism ("MOICT").

It is expected that all our directors, employees and suppliers act with honesty, integrity and fairness. To ensure this, the Board has delegated some of its responsibilities to specialized committees with a definite mandate to ensure that all facets of good governance are implemented and monitored on an ongoing basis.

In accordance with the Company's Corporate Governance guidelines, Zain Bahrain is in compliance with the CBB Module and the MOICT Codes ("the Code") with the exception of the following:

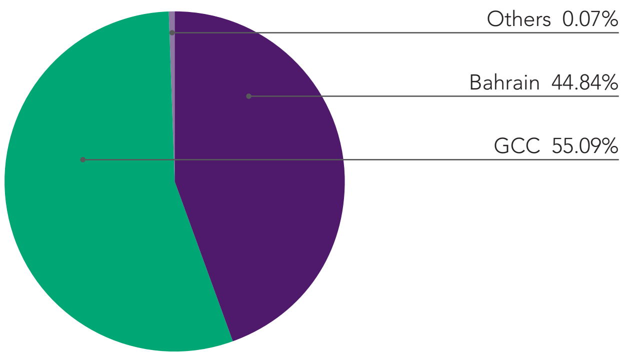
- Shaikh Ahmed Bin Ali Al-Khalifa has been appointed by the Board of Directors as the Chairman of the Board. The Code recommends that the Chairman should be an independent and non-executive Director and that he is not Company's CEO. Zain Bahrain's Chairman is not the Zain Bahrain's CEO, however as he owns 16.1% of the Company's shares, he is not considered an independent Director. The Board has reviewed this recommendation and does not believe its non-compliance will affect the balance of power and greater capacity of the Board for its independent decision making.
- The Code states that the Audit Committee and the Nomination and Remuneration Committee should each have a majority of independent directors and that its chairman is an independent director. Both these committees do not follow the structure as the Board is of the opinion that since Zain Bahrain is reliant on the expertise and management of Mobile Telecommunication Company K.S.C.P (MTC), these Committees do require such members in order to be able to achieve its objectives.

1. Ownership Structure

1.1 Ownership Structure by Nationality

The table and illustration shows the distribution of ownership of Zain Bahrain shares by nationality:

Nationality	Number of Shares	% of shares held
Bahrain	165,016,043	44.84%
GCC	202,714,481	55.09%
Others	269,476	0.07%

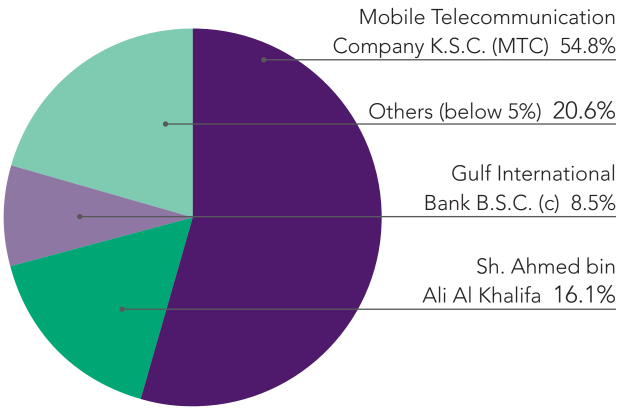


"Zain Bahrain BSC is committed to the universal corporate governance practices and regulatory requirements."

1.2 Ownership Structure by Size

The table and illustration shows the distribution of ownership of Zain Bahrain's shares by size (5% and above):

Owner	Number of Shares	% of shares held
Mobile Telecommunication Company K.S.C. (MTC)	201,600,000	54.8%
Sh. Ahmed bin Ali Al Khalifa	59,260,000	16.1%
Gulf International Bank B.S.C. (c)	31,285,097	8.5%
Others (below 5%)	75,854,903	20.6%



1.3 Ownership Structure by Category

The table below shows the distribution of ownership of Zain Bahrain’s shares by government entities, directors and executive management:

Government Entities	Number of Shares	% of shares held
Minors Estate Directorate	2,400,000	0.65%
Pension Fund Commission	15,000,000	4.08%

<table>
<tr><th>Directors</th><th>Number of Shares</th><th>% of shares held</th></tr>
<tr><td>Sh. Ahmed bin Ali Al Khalifa</td><td>59,260,000</td><td>16.1%</td></tr>
<tr><td>Sh. Rashid bin Abdulrahman Al Khalifa</td><td>1,200,000</td><td>0.32%</td></tr>
<tr><td>Mr. Ali Hasan Al Khaja</td><td>1,440,000</td><td>0.39%</td></tr>
<tr><td>Mr. Asaad Ahmed Al Banwan</td><td rowspan="4">201,600,000</td><td rowspan="4">54.8% (MTC)</td></tr>
<tr><td>Mr. Jamal Shaker Al Kazemi</td></tr>
<tr><td>Mr. Waleed Abdulla Al Roudhan</td></tr>
<tr><td>Ms. Shaikha Khalid Al Bahar</td></tr>
</table>

Executive Management	Number of Shares	% of shares held
Mrs. Ameera Al Mukharraq	11,000	0.0029%

CORPORATE GOVERNANCE

2. Board Function, Structure, Members and Management

2.1 Function

The Company is managed by its Board of Directors which has the ultimate responsibility for the overall conduct of the Company's business. The primary responsibility of the Board is to provide effective oversight over the Company's affairs for the benefit of its shareholders and to balance the interests of its stakeholders.

The Board has a fiduciary duty of care and loyalty to the Company and its shareholders and is accountable to them for the proper conduct of the business. In addition, the Board is also responsible for overseeing the accuracy and completeness and the Company's compliance with its Corporate Governance Framework.

2.2 Structure

The Board comprises of seven (7) members with four (4) members representing Mobile Telecommunication Company K.S.C.P (MTC). MTC has entered into an exclusive management agreement with Zain Bahrain in order for it to benefit from MTC's standing in the telecommunication industry and its expertise. Zain Bahrain currently has two (2) Independent Directors. Shaikh Rashed Bin AbdulRahman Al-Khalifa and Mr. Ali Hasan Al-Khaja represent the Independent Directors of Zain Bahrain as defined in the Code. The Chairman of the Board is Sh. Ahmed Bin Ali Al Khalifa.

Detailed information on the directors, including directorships of other Board, position, qualification and experience is in this annual report.

2.3 Number and Names of Independent Members

Can be found in section 2.7

2.4 Board Term

The Board was re-elected/ re-appointed by the shareholders in the Annual General Meeting ("AGM") held on 26th of February, 2015 for a term of three (3) years from AGM date.

2.5 New Directors' Orientation and Education

In accordance with CBB Module and Company's Board Charter, the Chairman of the Board ensures that any new director receives a formal and tailored induction to ensure his/her contribution to the Board from the beginning of term.

Zain Bahrain's induction includes meetings with senior management, visits to the company's facilities, presentations regarding strategic plans, significant financial, accounting and risk management issues, compliance programs, its internal and external auditors and legal counsel / compliance officer. Details of new directors' orientation are set out in the Company's Board Charter.

2.6 Election / Appointment and Termination Process of Directors

2.6.1 Election / Appointment

Directors are elected / appointed by the shareholders from amongst candidates proposed by the Board on the recommendations of the Nomination and Remuneration Committee. The Board is appointed for a period of three years on a renewable basis. At the request of the Board, the MOICT may extend the membership term of a Director for no more than six months.

2.6.2 Director's Appointment Letters

In accordance with the Code, each Director has signed a Director's appointment letter which sets out such directors' duties and responsibilities and the terms and conditions of such directorship.

2.6.3 Termination Process

Termination of directorship can take effect in the cases set out below as specified in the Commercial Companies Law and in the Company's Board Charter:

- If a Director does not have the appropriate legal qualifications or has been sentenced for an act, a fraud or a crime affecting his honour or integrity;
- If a Director is appointed or elected in a manner contrary to the provisions of the law;

- If a Director abuses his membership to carry on a competitive business to the Company or causes damages to the Company;
- If the shareholder appointing the member removes him; or
- Termination of a member of the Board or the whole Board can be affected by a General Assembly in accordance with Article 178 of the Commercial Companies Law of Bahrain.

2.7 Board Meetings' Dates and Attendance

The members of the Board have met four (4) times during the year of 2016 on the following dates:

09 February 2016

21 April 2016

28 July 2016

16 October 2016

The record of their attendance is set out below:

Director's Name	Status of Director	Meetings Attended Out of Four	Percentage of Attendance
Sh. Ahmed Bin Ali Al-Khalifa	Non-executive / Non-independent	Four (4)	100%
Mr. Asaad Ahmed Al-Banwan	Non-executive / Non-independent	Four (4)	100%
Sh. Rashid Bin AbdulRahman Al-Khalifa	Non-executive / Independent	Four (4)	100%
Mr. Waleed Abdulla Al-Roudhan	Non-executive / Non-independent	Four (4)	100%
Mr. Jamal Shaker Al Kazemi	Non-executive / Non-independent	Three (3)	75%
Ms. Shaikha Khalid Al-Bahar	Non-executive / Non-independent	Four (4)	100%
Mr. Ali Hasan Al-Khaja	Non-executive / Independent	Four (4)	100%

2.8 Remuneration Policy for Directors

The Company's remuneration policy for Directors ensures that the Board is reasonably compensated for the time, resources, and effort spent in performing their fiduciary duties. The Board's remuneration, which is approved annually by the shareholders at the AGM, includes an annual stipend and allowance for out-of-pocket-expenses. For the year ending 31 December 2016, a total of BHD 218,513 was recommended by the Board.

2.9 List of Executive Management and Profile of Each

Mr. Scott Gegenheimer, Chief Executive Officer

Date of Appointment: December 2012

Mr. Scott Gegenheimer is the CEO of the parent company (Zain Group). He has been CEO of a number of telecom operators in the MENA region, and finance executive in a number of companies in the USA. Additionally, Mr. Gegenheimer has 25 years of extensive international and operational experience in wireless telecommunications and technology sectors. Mr. Gegenheimer holds an MBA from DePaul University and a BSc in Finance and Management from Northern Illinois University, USA.

Mr. Mohammed Zainalabedin, General Manager

Date of Appointment: May 2008

Mr. Mohammed Zainalabedin is responsible for the overall strategy, planning, operation and management of the business, as well as for creating, communicating and implementing the organization's vision and mission, and achieving its financial targets. Mr. Zainalabedin joined Zain Bahrain's IT Department in July 2003 and progressed to become the Chief Commercial Officer of

CORPORATE GOVERNANCE

the company. Prior to that, he was extensively involved in the banking IT field. Mr. Zainalabedin holds a BSc degree in Computer Engineering from the King Fahad University of Petroleum & Minerals, Kingdom of Saudi Arabia.

Mr. Hamad Al-Romaihi, Director, Technology

Date of Appointment: July 2010

Mr. Hamad Al-Romaihi is responsible for the planning, development, operation and maintenance of the network, including ensuring coverage and quality. Moreover, he is in charge of planning and developing technical strategies, policies, service level agreements and business plans; negotiating with network vendors; and planning and managing yearly CAPEX and OPEX budgets. The planning, development, operation and maintenance of all IT systems including the billing system, enterprise applications (human resources and finance), ISP infrastructure, business intelligence system and call centre voice system are also his responsibility. Prior to that, he worked in the field of network technology with the Parent Company, HP and Ericsson AB. Mr. Al-Romaihi holds a BSc in Electronic and Electrical Engineering from the Strathclyde University, United Kingdom.

Mr. Arslan Khan, Director, Sales and Customer Care

Date of Appointment: November 2012

Mr. Arslan Khan is responsible for customer care and acquisition targets in the consumer segment (indirect sales and retail sales), Signature (high value and VIP) and business segment (corporate and enterprise). He joined Zain Bahrain in November 2012. Prior to that, he held senior positions in sales and marketing with telecommunications operators in the MENA region, including: Group Commercial Director for Vtel Holdings, Group Chief Commercial Officer for Bintel Ltd, Chief Marketing Officer for MTN, Commercial Director for Digicel, Marketing Director/Head of Residential Market for Etisalat and Marketing Director for Millicom International Cellular. Mr. Khan holds an MBA from Preston University, USA and a BSc in General Studies from Punjab University, Pakistan.

Ms. Latifa Salahuddin, Director, Legal & Compliance

Date of Appointment: May 2014

Ms. Latifa Salahuddin is responsible for providing and managing legal support, advising on, drafting and reviewing Zain Bahrain's local and international agreements, and liaising with regulatory agencies and government authorities. She is also secretary to the Board and supervises the implementation of its decisions. She is a qualified Bahraini lawyer. Prior to joining Zain Bahrain, and since year 2006, she was a senior associate at Zu'bi & Partners Attorneys & Legal Consultants. Ms. Salahuddin holds an LLB (Bachelor of Laws) from London Guildhall University and an LLM (Master of Laws) from University of London – The School of Oriental & African Studies (SOAS) in the United Kingdom.

Mrs. Dana Bukhammas, Director, Human Resources

Date of Appointment: July 2014

Ms. Dana Bukhammas is responsible for learning and development, performance management, employee relations and services, staffing and organizational development. Prior to this role, she had held other positions in Zain Bahrain's Human Resources department, and supervisory roles in the Sales Department. She joined Zain Bahrain in July 2003. Ms. Bukhammas holds a BSc in Business Management from the University of Bahrain.

Mr. Mudassar Ali, Director, Finance

Date of Appointment: February 2015

Mr. Mudassar Ali's mandate includes the day-to-day financial management of the company, including control over the company's revenues and disbursements, annual budgeting and forecasting, the management of its core system implementation and critical decision-making processes, and treasury and cash flow management.

With more than 20 years under his belt, Mr. Ali has held leading positions across several industries. During his previous role at Zain Kuwait, Mr. Ali played a significant role in operational improvement, financial reporting stability and technology utilization. He received a Bachelor of Commerce from University of Punjab, Pakistan, is a certified Oracle Financial connoisseur, and obtained an advanced development program certification from the London Business School.

Mr. Ali Mustafa, Director, Regulatory, Wholesale and Roaming

Date of Appointment: June 2015

With over ten years of experience within the telecoms industry, Mr. Ali Ahmed Mustafa was appointed head of Zain Bahrain's Regulatory, Wholesale and Roaming department. He began his career as an Account Manager at one of the telecommunication companies operating in the Kingdom, climbing the corporate ladder to reach the position of General Manager of Wholesale & Carrier Services.

Mr. Mustafa is responsible for developing the overall strategic approach for the Regulatory, Wholesale and Roaming department, while ensuring revenue and profitability for Zain Bahrain. He obtained a Bachelor's in Marketing and Management from the University of Bahrain.

Mr. Roland Loetscher, Director, Marketing

Date of Appointment: September 2015

Roland Loestcher is responsible for the company's strategic and tactical marketing activities. With two decades of international telecoms experience, including stints at Swisscom, Telefonica and Orange, Roland first joined Zain Group in 2008, heading the Product Management and Marketing Department for Zain Nigeria. He moved to Orange, where he was appointed VP, Mobile Propositions Group.

Roland holds an MBA from University of Chicago Booth School of Business, USA and a Bachelor in Business Administration from the School of Economics and Business Administration in Basel, Switzerland.

Ms. Samya Hussein, Manager, Corporate Communication

Date of Appointment: September 2007 – December 2016

Ms. Samya Hussein managed the company's public relations activities in which role she maintained positive relations with the public, press and electronic media. She also developed and oversaw the delivery of all publications, press and media communications, calendars, special promotions and general information on related activities and events. Ms. Hussain has previously held various positions in managing executives' office communications, as she worked in the CEO's offices of both Almoayyed Computers and Accor Group prior to joining Zain Bahrain. Ms. Hussain holds a Business Administration Degree from the University of Bahrain.

Mrs. Ameera Al Mukharreq, Manager, Business Planning & Analytics

Date of Appointment: January 2016

One of the earliest members of the Zain Bahrain team, Mrs. Al Mukharreq joined the company prior to its launch in 2003 as an engineer, managing and deploying value added services systems. She soon led many other functions within the Technology department, including the 24/7 Network Operation Center, Network Planning and Performance, International Carriers and the Roaming technical function. In 2010 Mrs. Al Mukharreq joined the Strategy and Business Planning department where she developed short-to-mid-term business plans and led the company's major projects. In her current role, she is in charge of Business Planning, Business Excellence, Experience Simulation and Business Analytics. She holds a BSc in Computer Science from the University of Bahrain.

2.10 Remuneration Policy for Management

The Company's remuneration policy for management is designed to attract, retain, and motivate employees of diverse skill sets and business acumen, education background and experience. For the year ending 2016, the annual remuneration fees of the executive management were in the form of salaries, allowances and bonus. Refer to note 20 (Compensation of key management personnel) of the financial statements.

2.11 Details of Stock Option and Performance Linked Incentives

(Not applicable to Zain Bahrain)

CORPORATE GOVERNANCE

2.12 Code of Conduct

In Zain Bahrain, the Directors and the Company's employees are expected to maintain the highest level of corporate ethics and personal behavior. Therefore, the Company has adopted a code of conduct which provides an ethical and legal framework for all employees in the conduct of its business. The Director's Code of Conduct has been initiated, approved and effective during the year of 2016 in accordance with the CBB Module and MOICT Corporate Governance Code.

3. Board Committees

3.1 Name and Function of the Committees

3.1.1 Audit Committee

The Board Audit Committee (BAC) undertakes the following responsibilities:

- Review the internal control and finance and accounting policies and procedures.
- The appointment of external auditors and review the financial statements.
- The appointment of the internal audit and the review of its activities and performance.
- Monitor the Company Compliance with the law, regulation and internal policies.
- Review the information technology systems controls and telecom systems controls.

On the Board meeting held on 16 October 2016, the Board approved as additional responsibility to the Audit Committee where the Committee will overlook Company's Corporate Governance process in accordance with CBB) Module. Henceforth, the Committee shall be empowered to:

(a) Oversee and monitor the implementation of the governance policy framework, and

(b) Provide the Board of Directors with reports and recommendations based on the Committee's findings in the exercise of its functions.

3.1.2 Nomination and Remuneration Committees

The Nomination and Remuneration Committee (NRC) undertakes the following responsibilities:

- Make recommendations to the Board regarding potential candidates for Board membership to be included by the Board of Directors on the agenda for the next annual "General Assembly", upon the expiry of the Board members' term.
- Recommend nominees for each committee of the Board.
- Oversee matters related to the compensation (to be approved by the shareholders), skills and expertise requirements and orientation and conduct of the Board, Board Committees.
- Review the remuneration framework for the Board.
- Review and approve the amendments to the existing organizational structure.
- Review with the new Board members, committee members and officers their roles and duties.

3.2 Committee Members and Meetings' Attendance

Set out below are the Committee members and the number of meetings attended. The BAC is required to meet at least four times a year while the NRC is required to meet at least twice a year. The Committees' members have satisfied this requirement during the year of 2016 as set out below:

	Board Member	Board Position	Committee Position	Audit Committee Meeting: (Four (4) Meetings)	Nomination And Remuneration (Committee Two (2) Meetings)
1	Mr. Asaad Ahmed Al Banwan	**Deputy Chairman**	**Audit Committee Chairman**	**Four (4)**	
2	Sh. Rashid Abdulrahman Al Khalifa	**Member**	**Audit Committee Member**	**Four (4)**	
3	Mr. Waleed Abdulla Al Roudan	**Member**	**Audit Committee Member**	**Four (4)**	
4	Mr. Jamal Shaker Al Kazemi	**Member**	**Nomination and Remuneration Committee Member**		**(1) One**
5	Ms. Shaikha Khalid Al Bahar	**Member**	**Nomination and Remuneration Committee Chairman**		**(2) Two**
6	Mr. Ali Hasan Al Khaja	**Member**	**Nomination and Remuneration Committee Member**		**(2) Two**

4. Auditors

- The External Auditors of Zain Bahrain for the audit year ended 2016 is Deloitte & Touché. The agreed audit fee for such year is BHD 32,000 and the non-audit service fee is BHD 5,100.

- The Board has recommended the reappointment of Deloitte & Touché for the audit year ending 2017 which was based on the recommendation of the Audit Committee. The reappointment shall be approved by the Shareholders at the Annual General Assembly Meeting.

5. Related Party Transactions, Directors Trading of Company Shares and Key Persons Policy

Related party transactions are carried out at arm's length and at rates approved by the Company's management. Amounts due from/to related parties are unsecured, bear no interest and have no fixed repayment terms. Management considers these to be current assets and current liabilities as appropriate. Refer to the note 20 (Related Party Transactions) of the financial statements.

Zain Bahrain Directors, Executive Management and employees have the right to trade in the Company's shares. However, such trade must be in compliance with the Company's Key Persons Policy to ensure that no trade is made by making use of non-published material information.

CORPORATE GOVERNANCE

6. Means of Communication with Shareholders and Investors

The Board is committed to maintain open communication channels with its shareholders and investors in order to ensure the transparency and effectiveness of communication. According to the CBB's principles, the Board has the legal responsibility to publicly disclose fair, transparent, comprehensive, and timely information to its stakeholders. To communicate with its shareholders, Zain Bahrain uses the following means:

- Zain Bahrain's audited financial statements.
- The Company supports the principle of effective communication through the annual report of the Company and the General Assembly Meetings.
- Any required notifications are made to the Bahrain Bourse for publishing on its website.
- All material facts are available on the Company's website.

7. Management of Principle Risks and Uncertainties

The Company holds rigorous risk management controls for day-to-day internal processes. These are set out in the financial statements note 23.

8. Review of the Internal Control

Through the BAC, the Board of Director maintains and reviews an effective system of internal control that provides reasonable assurance against material misstatement or loss. The primary objective of the Internal Audit is to assist the BAC in measuring the control environment by providing reports, recommendations and information on activities reviewed.

The Internal Auditor reports significant issues and effectiveness of controls and any other matters deemed appropriate to the BAC, CEO and CFO of the parent company (MTC) and Zain Bahrain's Executive Management.

There are clear processes for monitoring and reviewing the system of internal control and reporting any weaknesses in the Company. BAC has the authority to conduct the internal control audit. The scope of internal control activities is subject to the BAC's review and approval but will not otherwise be restricted. All staff and management of MTC shall make all efforts to provide necessary assistance to, and cooperate with our staff in performing their duties effectively.

Throughout the year of 2016, the Company has implemented a system of internal control that provides reasonable assurance of the effectiveness and efficiency of the operation including all types of controls such as financial and compliance with the regulations.

9. Announcements of Results

Zain Bahrain has ongoing reporting requirements and obligations imposed by the CBB, Bahrain Bourse and MOICT.

The announcement of results in the newspapers will include income statement, cash flow statement, statement of comprehensive income and changes in shareholders' equity, Auditors report, Auditor's signature date and Board Approval date. The results of the annual financial review for the year ended shall be published within sixty (60) days of the related year end. Results of quarterly financial review shall be published within forty five (45) days of the related quarter. The AGM shall be held within ninety days (90) after the year end.

10. Directors' Responsibilities for the Preparation of Financial Statements

The BAC is formed by the Board to assist in fulfilling the Board's responsibility in respect to:

- The integrity of the Company's financial statements and financial reporting process and the Company's systems of internal accounting and financial controls;
- The annual independent audit of the Company's financial statements, the engagement of the external auditors and the evaluation of the external auditor's qualifications, independence and performance; and
- Compliance by the Company with legal and regulatory requirements.

11. Conflict of Interest

The Directors are obliged to arrange their personal and business affairs to avoid any conflict of interest with the Company. If any conflict of interest arises, such Director is responsible to inform the entire Board in writing.

For the year of 2016, no conflict of interest was raised to the Board and no Director abstained from voting.

The Directors' Code of Conduct Policy can be requested from Zain Bahrain's Compliance Officer.

12. Performance Evaluation

The NRC is assigned the responsibility of developing and recommending to the Board for its approval an annual self-evaluation process for the Board and its committees as well as overseeing the annual self-evaluation. It has also the responsibility of assisting the Board in determining the compliance of each Director and Officer with the Director's "Code of Conduct" and the "Company's Code of Conduct" and reports any violations to the Board.

ZAIN BAHRAIN B.S.C., MANAMA, KINGDOM OF BAHRAIN

Commercial Registration No.	50603
Chairman	Al Shaikh Ahmed Bin Ali Al Khalifa
Directors	Mr. Asaad Ahmed Al Banwan - Vice Chairman Al Shaikh Rashed Abdulrahman Mohamed Al Khalifa - Independent Director Mr. Jamal Shaker Al Al Kazemi Mr. Waleed A M A Alroudan Mrs. Shaikha Khalid A A Albahar Mr. Ali Al Khaja – Independent Director
Corporate Secretary	Ms. Latifah Salahuddin
Chief Executive Officer	Mr. Scott Gegnheimer
General Manager	Mr. Mohammed Zainalabedin
Finance Director	Mr. Mudassar Muhammad Ali
Registered Office	P.O. Box 266 Manama Kingdom of Bahrain
Principal Bankers	National Bank of Kuwait Bank of Bahrain and Kuwait National Bank of Bahrain National Bank of Abu Dhabi Ahli United Bank Ithmar Bank Arab Bank Khaleeji Commercial Bank Bank Muscat International Kuwait Finance House Bahrain Islamic Bank Al Baraka Islamic Bank Standard Chartered Bank United Bank Ltd.
Auditors	Deloitte & Touche - Middle East P.O. Box 421 Manama Kingdom of Bahrain

DIRECTORS' REPORT

ZAIN BAHRAIN B.S.C. MANAMA - KINGDOM OF BAHRAIN

The Directors present their annual report and financial statements for the year ended December 31, 2016.

PRINCIPAL ACTIVITY

The principal activity of the Company is to provide telecommunication services under various licences issued by the Telecommunications Regulatory Authority of the Kingdom of Bahrain.

REVIEW OF BUSINESS

The results for the year are set out on page 11 of the financial statements.

SHARE CAPITAL STRUCTURE

	2016 (%)	2015 (%)
Shareholders:		
Mobile Telecommunication Company K.S.C. - Kuwait	54.78	54.78
Al Sheikh Ahmed Bin Ali Al Khalifa	16.10	16.10
Gulf International Bank B.S.C.	8.50	8.50
Others	20.62	20.62
	100.00	100.00

CHANGES IN DIRECTORS

None.

DIRECTORS REMUNERATION

Director's remuneration charged during the year ended December 31, 2016 amounted to BD 218,513 (2015: BD 306,800).

AUDITORS

A resolution proposing the reappointment of Deloitte & Touche - Middle East as auditors of the Company for the year ending December 31, 2017 and authorising the Directors to fix their remuneration will be put to the Annual General Meeting subject to the approval of the Central Bank of Bahrain.

On behalf of the Board

Al Sheikh Ahmed Bin Ali Al Khalifa
Chairman
31 Jan 2017

Mr. Asaad Ahmed Al Banwan
Vice Chairman

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

ZAIN BAHRAIN B.S.C. MANAMA - KINGDOM OF BAHRAIN

Deloitte.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Zain Bahrain B.S.C. (the "Company"), which comprise the statement of financial position as at December 31, 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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 Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other ethical requirements that are relevant to our audit of the Company's financial statements in the Kingdom of Bahrain, and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition and cut-off	
The Company has various revenue streams recognized in the financial statements which are disclosed in Note 16 to the financial statements. The Company's accounting policies with regard to revenue recognition are presented in Note 3 to the financial statements. We have considered revenue to be a key audit matter due to the following: • Revenue is the key business driver for the Company; • Complexity of billing systems, impact of changing pricing models to revenue recognition (tariff structure, incentives arrangements, discounts, etc.) and arrangements with multiple elements.	In responding to this area of focus, our audit procedures included the following: • Performing procedures aimed at the design, implementation and operating effectiveness of relevant controls related to the revenue process; • involving our internal information technology ("IT") specialists in performing the test of specific application controls and information produced by the entity ("IPE") reports surrounding relevant revenue IT systems, and IT general controls related to those systems; • performing analytical reviews of significant revenue streams including performance of an end to end walkthrough of the revenue assurance process; • reviewing key reconciliations performed by the Company's Revenue Assurance team; • testing a sample of subscribers invoices back to the cash receipts; • performing tests on the accuracy of subscribers bill generation on a sample basis; • performing procedures to ensure that the revenue recognition criteria adopted by the Company for all major revenue streams is appropriate and in line with the Company's accounting policies.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

ZAIN BAHRAIN B.S.C. MANAMA - KINGDOM OF BAHRAIN

Key audit matter	How our audit addressed the key audit matter
Automated systems and controls	
An important part of the Company's financial processes is highly dependent on its information systems ("IT") with automated controls over these systems. This represents a significant audit effort because of the complex information technology environment supporting various business processes, including billing systems, and the mix of manual and automated controls.	We evaluated the design and tested the operating effectiveness of the controls in systems relevant to financial reporting. Where we concluded that testing controls is not an appropriate or efficient testing approach, we performed testing on the financial information being produced by the systems. We obtained an understanding of material new IT systems which were implemented during the year and tested IT general controls. We also tested the completeness and accuracy of data migration from the legacy systems to the new systems. Additionally, we performed the following: • Utilized data technology to extract and analyze the population of journals and tested manual journals as part of our work on possible management override of controls; • evaluated user access controls around the relevant applications; and • tested user access rights to specific menus and transactions within the relevant applications.

Other Information

Management is responsible for the other information. The other information comprises the Directors Report which we obtained prior to the date of this auditor's report and the Annual Report, which is expected to be made available to us after that date. The other information does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

ZAIN BAHRAIN B.S.C. MANAMA - KINGDOM OF BAHRAIN

As part of an audit in accordance with ISA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risk, 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 evidenced obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 financial statements or, if such disclosure 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

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 financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulations preclude 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

Further as required by the local regulations, we report that in our opinion, the Company has maintained proper accounting records and the financial statements have been prepared in accordance with those records. We further report that, to the best of our knowledge and belief, the financial information provided in the Directors' report is in agreement with the financial statements and based on the information and explanations provided by the management which were required for the purpose of our audit, we are not aware of significant violations of the relevant provisions of the Bahrain Commercial Companies Law 2001 and the Company's Memorandum and Articles of Association, the Central Bank of Bahrain (CBB) Rule Book (applicable provision of volume 6) CBB directives and regulations and associated resolution, rules and procedures of the Bahrain Bourse, having occurred during the year ended December 31, 2016 that might have had a material adverse effect on the business of the Company or on its financial position.

Deloitte & Touche

Manama, Kingdom of Bahrain
31 Jan 2017

DELOITTE & TOUCHE – MIDDLE EAST
Partner Registration No. 184

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016

	Notes	**2016** BD '000	2015 BD '000
ASSETS			
Current assets			
Cash and bank balances	5	5,364	7,822
Accounts receivable and other assets (net)	6	21,218	21,334
Inventories	7	3,390	2,505
Total current assets		**29,972**	31,661
Non-current assets			
Property and equipment	8	74,656	72,720
Intangible assets	9	13,451	12,835
Total non-current assets		88,107	85,555
Total assets		**118,079**	117,216
LIABILITIES AND EQUITY			
Liabilities			
Current liabilities			
Accounts payable and other liabilities	10	39,222	32,376
Current portion of term loans	11	7,786	7,786
Deferred revenue		3,542	4,168
Total current liabilities		**50,550**	44,330
Non-current liabilities			
Non-current portion of term loans	11	1,875	9,661
Provision for employees' end of service benefits	12	300	285
Total non-current liabilities		2,175	9,946
Total liabilities		**52,725**	54,276
Equity			
Share capital	13	36,800	36,800
Share premium	14	3,032	3,032
Statutory reserve	15	10,807	10,382
Retained earnings		14,715	12,726
Total equity		**65,354**	62,940
Total liabilities and equity		**118,079**	117,216

The financial statements were approved and authorised for issue by the Board of Directors on 31 Jan 2017 and signed on their behalf by:

Al Sheikh Ahmed Bin Ali Al Khalifa
Chairman

Mr. Asaad Ahmed Al Banwan
Vice Chairman

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2016

	Notes	2016 BD '000	2015 BD '000
Revenue	16	64,647	71,112
Cost of revenue		(11,187)	(11,226)
Gross profit		53,460	59,886
Operating and administrative expenses		(27,419)	(29,832)
Depreciation and amortisation		(20,430)	(22,478)
Provision for impairment of receivables and other assets		(1,022)	(1,476)
Provision for inventories		(230)	(324)
Operating profit		**4,359**	5,776
Other income - net		378	-
Gain on currency revaluation		8	57
Interest income		71	35
Finance costs	17	(562)	(721)
Profit for the year	18	4,254	5,147
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**4,254**	5,147
Basic and diluted earnings per share	19	**Fils 12**	Fils 14

Al Sheikh Ahmed Bin Ali Al Khalifa
Chairman

Mr. Asaad Ahmed Al Banwan
Vice Chairman

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2016

	Share Capital BD '000	Share Premium BD '000	Statutory Reserve BD '000	Retained Earnings BD '000	Total BD '000
Balance at January 1, 2015	36,800	3,032	9,867	9,934	59,633
Dividends declared (Note 13)	-	-	-	(1,840)	(1,840)
Total comprehensive income for the year	-	-	-	5,147	5,147
Transfer to statutory reserve	-	-	515	(515)	-
Balance at December 31, 2015	36,800	3,032	10,382	12,726	62,940
Dividends declared (Note 13)	-	-	-	(1,840)	(1,840)
Total comprehensive income for the year	-	-	-	4,254	4,254
Transfer to statutory reserve	-	-	425	(425)	-
Balance at December 31, 2016	**36,800**	**3,032**	**10,807**	**14,715**	**65,354**

The attached notes 1 to 25 form part of these financial statements

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2016

	2016 BD '000	2015 BD '000
Cash flows from operating activities		
Profit for the year	4,254	5,147
Adjustments for:		
Depreciation and amortization	20,430	22,478
Provision for impairment of receivables and other assets and provision for inventories	1,252	1,800
Finance costs	562	721
Interest income	(71)	(35)
Provision for employees' end of service benefits	75	105
Operating profit before working capital changes	26,502	30,216
Increase in inventories	(1,115)	(701)
Increase in accounts receivable and other assets	(2,164)	(1,802)
Increase in accounts payable and other liabilities	912	4,885
Decrease in deferred revenue	(626)	(361)
Cash generated from operating activities	23,509	32,237
Payment of employees' end of service benefits	(60)	(143)
Net cash from operating activities	23,449	32,094
Cash flows from investing activities		
Purchase of property and equipment	(5,739)	(10,440)
Increase in intangible assets	(10,009)	(9,852)
Interest received	71	35
Net cash used in investing activities	(15,677)	(20,257)
Cash flows from financing activities		
Term loans	(7,786)	(4,485)
Interest paid	(610)	(701)
Dividends paid	(1,834)	(1,803)
Net cash used in financing activities	(10,230)	(6,989)
Net (decrease) / increase in cash and cash equivalents	(2,458)	4,848
Cash and bank balances at beginning of the year	7,822	2,974
Cash and bank balances at end of the year (Note 5)	**5,364**	7,822

Non-cash transactions (Note 25)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

1. CORPORATE INFORMATION

Zain Bahrain B.S.C. (the "Company") is a Bahraini Shareholding Company (Public) incorporated in the Kingdom of Bahrain on April 19, 2003 and registered with the Ministry of Industry and Commerce under Commercial Registration (CR) number 50603. The Company is a subsidiary of Mobile Telecommunications Company K.S.C. (the "Parent Company"), a Kuwaiti shareholding company listed on the Kuwait Stock Exchange. The Company's registered office is P.O. Box 266, Manama, Kingdom of Bahrain.

The Company is mainly engaged in the provision of public telecommunications and related products and services. Effective December 4, 2014, the Company became a Bahraini Shareholding Company (Public) with shares listed on the Bahrain Bourse.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New and revised IFRSs applied with no material effect on the financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1, 2016, have been adopted in these financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities
- Annual Improvements to IFRSs 2012 – 2014 Cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34

2.2 New and revised IFRS in issue but not yet effective

The Company has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs

Annual Improvements to IFRS Standards 2014 – 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28

The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018, the amendment to IFRS 12 for annual periods beginning on or after January 1, 2017

Amendments to IAS 12 *Income Taxes* relating to the recognition of deferred tax assets for unrealised losses

Effective for annual periods beginning on or after January 1, 2017

Amendments to IAS 7 *Statement of Cash Flows* to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Effective for annual periods beginning on or after January 1, 2017

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.2 New and revised IFRS in issue but not yet effective (Continued)

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

The interpretation addresses foreign currency transactions or parts of transactions where:

- there is consideration that is denominated or priced in a foreign currency;
- the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and
- the prepayment asset or deferred income liability is non-monetary.

Effective for annual periods beginning on or after January 1, 2018

Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions

Effective for annual periods beginning on or after January 1, 2018

Amendments to IAS 40 *Investment Property*: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.

Effective for annual periods beginning on or after January 1, 2018

Amendments to IFRS 7 *Financial Instruments: Disclosures* relating to disclosures about the initial application of IFRS 9

Effective for annual periods beginning on or after when IFRS 9 is first applied

IFRS 7 *Financial Instruments: Disclosures* relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9

Effective for annual periods beginning on or after when IFRS 9 is first applied

IFRS 9 *Financial Instruments* (revised versions in 2009, 2010, 2013 and 2014)

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 *Financial Instruments: Recognition and Measurement.* The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.2 New and revised IFRS in issue but not yet effective (Continued)

- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.

Effective for annual periods beginning on or after January 1, 2018

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. 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 core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Amendments to IFRS 15 *Revenue from Contracts* with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.

Effective for annual periods beginning on or after January 1, 2018

IFRS 16 *Leases*

Effective for annual periods beginning on or after January 1, 2019

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.

Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Company's financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the financial statements of the Company in the period of initial application.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

2.2 New and revised IFRS in issue but not yet effective (Continued)

Management anticipates that IFRS 15 and IFRS 9 will be adopted in the Company's financial statements for the annual period beginning 1 January 2018 and that IFRS 16 will be adopted in the Company's financial statements for the annual period beginning 1 January 2019.The application of IFRS 15 and IFRS 9 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of revenue from contracts with customers and the Company's financial assets and financial liabilities and the application of IFRS 16 may have significant impact on amounts reported and disclosures made in the Company's financial statements in respect of its leases.

However, it is not practicable to provide a reasonable estimate of effects of the application of these standards until the Company performs a detailed review.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the applicable requirements of the Bahrain Commercial Companies Law and the Central Bank of Bahrain Rule Book.

3.2 Basis of preparation

The financial statements have been prepared on the historical cost basis.

The financial statements have been presented in Bahraini Dinars ("BD") which is the Company's functional currency. All financial information presented in Bahraini Dinars has been rounded to the nearest thousand (BD'000) except where stated otherwise.

The principal accounting policies are set out below.

3.3 Revenue

Revenues which consist of income streams of a recurring and non-recurring nature are recognised when related services are provided and are measured at the fair value of the consideration received or receivable and are reduced for rebates and other similar allowances.

3.3.1 *Post-paid*

Recurring post-paid revenue represents billings to subscribers in respect of monthly rentals, airtime (voice and data) usage fees and roaming charges. These are recognised when the related services are provided.

Revenue arising from the previous billing date to the reporting date is accrued.

3.3.2 *Prepaid*

Prepaid vouchers enable the users to forward purchase a specified value of airtime (voice and data). The sale price of the prepaid vouchers is based on airtime bundles while revenue is recognised based on airtime usage. Unused airtime which has not been earned at the reporting date is recognised in the statement of financial position as deferred revenue. Non-recurring revenues include one-time charges of subscription and other services fees. One-time charges are recognised when services to the customers are activated or provided, as appropriate.

3.3.3 *Roaming*

Roaming revenue arises from revenue sharing arrangements with other telecommunication operators in respect of traffic exchanged and is recognized as earned.

Roaming revenue is presented on net basis.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.3 Revenue (Continued)

3.3.4 *Interconnection*

Revenue (inbound)
Interconnection revenue represents amounts receivable from other network operators for their subscribers' traffic terminated on the Company's network and is accounted for during the period of such use.

Expenses (outbound)
Interconnection expenses represent amounts payable to other network operators for the traffic terminated on their network by the Company's subscribers and are accounted for during the period of such use.

3.3.5 *Prepaid calling cards*

Prepaid cards enable the users to forward purchase a specified value of airtime to call international destinations. The sale price of the prepaid card is based on airtime bundles while revenue is recognised based on airtime usage. Unused airtime which has not been earned at the reporting date is recognised in the statement of financial position as deferred revenue.

3.3.6 *Trading revenue*

Revenues arising from trading primarily comprise of hand sets, equipment and SIM card starter packs sales and are recognised upon delivery to the customer.

3.3.7 *Interest income*

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

3.4 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition cost of the asset. Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company.

Depreciation is recognised so as to write off the cost of assets or valuation of assets (other than freehold land and capital work in progress) over their useful lives, using the straight-line method.

The estimated useful lives of property and equipment are as follows:

Freehold building	50 years
Network equipment	3-20 years
Office equipment	4-5 years
Furniture and fixtures	5 years
Vehicles	5 years

Freehold land is not depreciated. Assets (including capital work in progress) are depreciated from the time an asset is completed and ready for use.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.5 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any. For acquired network businesses whose operations are governed by fixed-term licenses, the amortization period is determined primarily by reference to the unexpired license period and the conditions for license renewal. Telecom license fees are amortized on a straight line basis over the life of the license. Customer contracts and relationships are amortized over the contract period (one to four 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 amortized over the period of the contract.

Indefeasible Right to Use ("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 Company 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 amortized on a straight line basis over the shorter of the expected period of use and the life of the contract.

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses, if any.

3.6 Impairment of non-financial assets

Where there is an indication of impairment in value, such that the recoverable amount of an asset (other than inventories) falls below its net book value, an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.7 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.8 Inventories

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a weighted average basis. Costs are those expenses incurred in bringing each product to its present location and condition.

Net realizable value represents the estimated selling price in the ordinary course of business less all estimated selling expenses.

3.9 Financial assets

Financial assets include trade and other receivables, unbilled revenue, due from telecommunication operators, cash and bank balances. Financial assets are recognized on the date at which they are originated. Financial assets are initially recognized at fair value plus directly attributable transaction costs for instruments not at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.9 Financial assets (Continued)

3.9.1 *Receivables*

Subsequent to initial recognition, accounts receivables are measured at amortized cost, less any allowance for impairment.

3.9.2 *Cash and cash equivalents*

Cash and cash equivalents include cash on hand and deposits with banks with original deposit period of 3 months or less.

3.9.3 *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Individually significant financial assets are tested for impairment on an individual basis. Remaining financial assets which share similar credit characteristics are assessed for impairment on a collective basis.

For financial assets carried at amortized cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial assets at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

3.9.4 *Derecognition of financial assets*

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

The difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.10 Financial liabilities

Financial liabilities include trade and other payables, due to telecommunication operators and borrowings. Financial liabilities are initially recognized at fair value plus directly attributable transaction costs.

Accounts payable are stated at their nominal value. Borrowings are initially recognized net of transaction costs and subsequently measured at amortized cost using the effective interest rate method.

3.10.1 *Derecognition of financial liabilities*

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

The difference between the carrying amount of the financial liability derecognized and the sum of the consideration paid and payable is recognised in profit or loss.

3.11 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) arising from a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When same or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

3.12 Leasing

The Company as lessee

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair valueof the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance expenses and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the lease.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the profit or loss on a straight- line basis over the lease term.

3.13 Provision for employees' end-of-service benefits

The Company provides end of service benefits to all its expatriate employees in accordance with the Bahrain Labor Law. The entitlement to these benefits is based upon the employee's final basic salary and length of service. The expected costs of these benefits are accrued over the period of the employment.

For Bahraini employees, the Company makes contributions to the Social Insurance Organization, based on the applicable law and regulation.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

3.14 Employee saving scheme

The Company's contribution to the employees saving scheme is calculated as a percentage of employee salaries as determined by management in a separate fund account. The Company's obligations are limited to these contributions, which are expensed when due.

3.15 Foreign currencies

The functional currency of the Company is the Bahraini Dinar. Transactions in foreign currencies are recognized in functional currency at the rate ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3.16 Segment information

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses including revenues and expenses relating to transactions with other components of the same entity, whose operating results are regularly reviewed by the entity's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

3.17 Offsetting Financial Assets and Financial Liabilities

Financial assets and financial liabilities are offset and reported on a net basis in the accompanying statement of financial position when a legally enforceable right to set-off such amounts exists and when the Company intends to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Company's accounting policies

In the process of applying the Company's accounting policies, which are described in Note 3, management did not have to make judgements that may have significant effect on the amounts recognized in the financial statements.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Property and equipment - network:

Due to the nature of the Company's business, the network assets of the Company, as detailed in Note 8, are susceptible to rapid technological obsolescence. Management depreciates those assets over 3 to 20 years. The estimation of network assets useful lives is based on management judgement and estimates. In order to estimate the lives of network assets, management considers the nature of the assets, usage and technological advancement. Therefore, any technological advancement in future may warrant the need for substantial upgrade or replacement of equipment. As described in Note 3, management reviews the network assets to identify any indication that those assets have suffered an impairment loss. As per the policy, the impairment loss, if any, will be recognised immediately in the profit or loss.

Allowance for impairment of trade and other receivables:

The Company's policy is to provide for late receivables after taking into account factors such as the time period for which the amount has been outstanding, type of subscribers and period the subscriber balance has remained inactive. On the basis of the age analysis of due from subscribers, management uses certain percentages applied to the different aging periods excluding certain subscriber categories such as Government agencies, VIPs, employees of the Company and amounts in the process of being collected by collection agencies. These percentages and the exceptions provided to certain categories of subscribers have been developed by management on the basis of their experience and past recovery trends. The ability to estimate the required provision will become more accurate over time as long as sufficient reliable data is built up. Refer to Note 6 for further details.

Provision for obsolete and slow moving inventory items

Considerable judgement by management is required in the estimation of the obsolete and slow moving inventory.

Management review of inventory obsolescence is mainly based on the aging of inventory items and applying percentages which reflect management assessment of obsolesce.

Where the Company expects exchanging old inventory items with supplier, the provision amount is reduced to reflect inventory items at their net realisable value as estimated by management (see Note 7).

5. CASH AND BANK BALANCES

	2016 BD '000	2015 BD '000
Cash and current accounts with banks	4,983	7,526
Items under collection	381	296
Cash and bank balances	**5,364**	7,822

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

6. ACCOUNTS RECEIVABLE AND OTHER ASSETS, (NET)

	2016 BD '000	2015 BD '000
Accounts receivable:		
Due from post paid subscribers (Note 6.1)	21,319	19,898
Due from roaming partners (Note 6.2)	2,353	3,616
Allowance for impairment	(9,468)	(8,472)
	14,204	15,042
Instalment sales receivable	677	536
Due from distributors	397	674
Interconnect receivables from other operators	2,441	1,717
Accrued income (Note 6.3)	178	481
	17,897	18,450
Other assets:		
Prepaid expenses (Note 6.4)	806	1,480
Due from related parties (Note 20)	15	15
Sundry receivables and advance payments	1,631	529
Staff receivables	79	70
Portfolio under management (Note 6.5)	912	912
Allowance for impairment	(122)	(122)
	3,321	2,884
	21,218	21,334

The allowance for impairment of receivables is broken down as follows:

	2016 BD '000	2015 BD '000
Allowance for post paid subscribers (collectively assessed)	9,229	8,250
Allowance for a roaming partner	239	222
Allowance for other receivables	122	122
	9,590	8,594

The movement in the allowance for impairment of receivables is as follow:

	2016 BD '000	2015 BD '000
Balance beginning of year	8,594	7,118
Additions	1,022	1,476
Write off	(26)	-
Balance end of year	**9,590**	8,594

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

6. ACCOUNTS RECEIVABLE AND OTHER ASSETS, (NET) (Continued)

6.1 The aging of receivables of post paid subscribers is as follows:

		2016	
	Gross BD '000	Impairment allowance BD '000	Net exposure BD '000
Up to 60 days	3,313	-	3,313
61 to 90 days	508	38	470
91 to 365 days	3,622	789	2,833
More than 1 year	13,876	8,402	5,474
	21,319	**9,229**	**12,090**

		2015	
	Gross BD '000	Impairment allowance BD '000	Net exposure BD '000
Up to 60 days	3,896	-	3,896
61 to 90 days	560	40	520
91 to 365 days	3,364	219	3,145
More than 1 year	12,078	7,991	4,087
	19,898	8,250	11,648

No interest is charged on overdue balances receivable from subscribers. These amounts are provided for impairment based on a collective assessment on the following basis:

- Management considers that invoices outstanding up to 60 days are considered within the acceptable credit period.
- No allowance for impairment is made with respect to overdue balances related to certain categories of subscribers irrespective to the aging of these receivables. These mainly include government agencies, VIP customers and certain long overdue amounts under execution with collective agencies to the extent where management believes that these are recoverable and no objective evidence of impairment exists at the reporting date.
- For other categories of subscribers, overdue balances beyond 60 days are provided based on certain percentages applied to different aging brackets. Amounts outstanding beyond one year which are not assigned to collection agencies are fully provided for.

6.2 Balances due from roaming partners are concentrated within a limited number of counterparties.

An allowance for impairment in the amount of BD 239,000 (2015: BD 222,000) has been provided for, in respect of roaming receivables.

6.3 Accrued income comprises unbilled charges for services provided at the yearend where the billing was not due at that date.

6.4 Prepaid expenses comprise the unamortized portion of advance payments in connection with rentals, insurance, maintenance and other miscellaneous expenses.

6.5 As part of the regulatory requirement, the Company has entered into a Discretionary Portfolio Management Agreement with a third party market maker for a period up to twelve months from the effective listing date and it has been renewed during the current year. By virtue of the agreement the market maker executes buy and sell orders at its sole discretion to achieve price stabilization of the Company's shares and to facilitate the trading of shares against a management fee. As at December 31, 2016, the portfolio under management includes shares amounting to BD 754 thousand (2015: BD 517 thousand).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

7. INVENTORIES

This caption comprises mobile telephone handsets and accessories, subscribers' identification module ("SIM") cards, recharge vouchers and calling cards.

	2016 BD '000	2015 BD '000
Handsets, accessories and others	4,572	3,457
Allowance for slow moving items	(1,182)	(952)
	3,390	2,505

The Company expects to exchange a portion of old inventory items.

8. PROPERTY AND EQUIPMENT

	Freehold Land and Building BD '000	Network Equipment BD '000	Office Equipment BD '000	Furniture and Fixtures BD '000	Vehicles BD '000	Capital work in progress BD '000	Total BD '000
Cost:							
Balance at January 1, 2015	2,967	77,330	29,813	3,889	17	4,046	118,062
Additions	21	266	575	-	-	11,573	12,435
Transfers	-	5,194	1,624	120	-	(6,938)	-
Balance at December 31, 2015	2,988	82,790	32,012	4,009	17	8,681	130,497
Reclassifications	-	(5,469)	5,469	-	-	-	-
Additions	-	-	-	-	-	11,715	11,715
Transfers	26	5,658	1,593	4	-	(7,281)	-
Balance at December 31, 2016	**3,014**	**82,979**	**39,074**	**4,013**	**17**	**13,115**	**142,212**
Accumulated Depreciation:							
Balance at January 1, 2015	693	23,499	20,629	3,418	17	-	48,256
Depreciation expense	35	6,837	2,509	140	-	-	9,521
Balance at December 31, 2015	728	30,336	23,138	3,558	17	-	57,777
Relating to reclassifications	-	(3,809)	3,809	-	-	-	-
Depreciation expense	37	6,722	2,883	137	-	-	9,779
Balance at December 31, 2016	**765**	**33,249**	**29,830**	**3,695**	**17**	**-**	**67,556**
Carrying amount:							
December 31, 2016	**2,249**	**49,730**	**9,244**	**318**	**-**	**13,115**	**74,656**
December 31, 2015	2,260	52,454	8,874	451	-	8,681	72,720

Capital work in progress mainly relates to network equipment in respect of network expansions and improvements. As at December 31, 2016 capital work in progress outstanding for more than one year amounted to approximately BD 2.483 million (2015: BD 880 thousand).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

9. INTANGIBLE ASSETS

	2016 BD '000	2015 BD '000
National Fixed Wireless Services license	1,895	2,267
4G Long Term Evolution license	749	814
Other intangible assets	1,230	-
	3,874	3,081
Subscribers acquisition cost	9,577	9,754
	13,451	12,835

The movement of intangible assets is as follows:

	2016 BD '000	2015 BD '000
Balance beginning of year	12,835	15,940
Addition - Subscribers acquisition cost	10,009	9,852
- Other intangible assets	1,258	-
Amortization charge	(10,651)	(12,957)
Balance end of year	**13,451**	12,835

9.1 The National Fixed Wireless Services ("NFWS") license was obtained on January 8, 2007. Initial cost of BD 5,576,211 is amortized over the license period of 15 years.

9.2 The 4G Long Term Evolution ("4G LTE") license was obtained on September 19, 2013. Initial cost of BD 956,700 is amortized over the license period of 15 years.

9.3 Subscribers acquisition cost consists of the subsidized cost of inventory items sold by the Company to its customers. These items are amortized over the contracted subsidy period which ranges from 1 to 4 years.

9.4 Other intangible assets are amortised over the contracted period.

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	2016 BD '000	2015 BD '000
Due to suppliers	11,339	8,845
Accrued expenses	14,312	9,695
Interconnection payable	1,379	1,588
Due to roaming partners	2,237	2,011
Accrued employees' benefits	887	1,227
Subscriber deposits	40	31
Dividend payable	43	37
Due to related parties (Note 20)	8,682	8,502
Accrued Directors' remuneration	218	307
Accrued interest	85	133
	39,222	32,376

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

11. TERM LOANS

	2016 BD '000	2015 BD '000
Term loans from banks:		
Current portion	7,786	7,786
Non-current portion	1,875	9,661
	9,661	17,447

In 2013, the Company obtained three term loans from resident banks in the aggregate amount of BD 31 million for the purpose of financing the Company's capital expenditures, including network expansion, and its working capital requirements. Total utilised balance up to December 31, 2016 amounted to BD 29.5 million (2015: BD 29.5 million). These loans are payable over 7 to 8 semi-annual installments starting after one year from loan agreements' dates and carry interest rate of three month BIBOR + 2.25%, payable quarterly.

Settlements made during the year amounted to BD 7.786 million (2015: BD 7.786 million).

The Company was in compliance with the financial covenants as at the year end.

12. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

The movement of the provision for the employees' end of service indemnity is as follows:

	2016 BD '000	2015 BD '000
Balance beginning of year	285	323
Additional provision	75	105
Reductions arising from payments	(60)	(143)
Balance end of year	**300**	285

13. SHARE CAPITAL

The Company's issued share capital consists of 368,000,000 ordinary shares at 100 Fils each, issued and fully paid.

Names and nationalities of the major shareholders and the number of equity shares held in which they have an interest of 5% or more of outstanding shares are as follows:

Name	Nationality	Number of Shares 2016 and 2015	% of share holding 2016 and 2015
Mobile Telecommunication Co. K.S.C.	Kuwait	201,600,000	54.78%
Sh. Ahmed Bin Ali Al-Khalifa	Bahrain	59,260,000	16.1%
Gulf International Bank B.S.C. ("Underwriter")	Bahrain	31,285,097	8.5%

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

13. SHARE CAPITAL (Continued)

Distribution schedule of equity shares:

	Number of Shares		Number of shareholders		% of total outstanding shares	
Categories	**2016**	2015	**2016**	2015	**2016**	2015
Less than 1%	48,187,913	51,254,903	475	490	13.10	13.93
1 % up to less than 5%	27,666,990	24,600,000	5	3	7.52	6.69
5 % up to less than 10%	31,285,097	31,285,097	1	1	8.50	8.50
10 % up to less than 20%	59,260,000	59,260,000	1	1	16.10	16.10
More than 50%	201,600,000	201,600,000	1	1	54.78	54.78
	368,000,000	368,000,000	**483**	496	**100.00**	100.00

The Annual General Assembly of shareholders held on March 24, 2016 approved the distribution of cash dividend of 5 fils per share totaling BD 1,840,000 (2015: BD 1,840,000).

14. SHARE PREMIUM

Share premium relates to amounts collected in excess of the par value of the issued share capital, net of shares issue costs. This amount is considered as part of the reserves and is not available for distribution, but can be utilised as stipulated in the Bahrain Commercial Companies Law.

15. STATUTORY RESERVE

In accordance with the Bahrain Commercial Companies Law and the Company's Articles of Association, 10% of the profit for the year is required to be transferred to a statutory reserve until it reaches 50% of the issued share capital. The reserve is not available for distribution, except in the circumstances stipulated in the Bahrain Commercial Companies Law.

16. REVENUE

This caption represents revenues from airtime, data, subscription, handsets, accessories and SIM card starter pack sales, net of roaming expenses. Revenue from sale of handsets, accessories and other items amounts to BD 1,895,924 (2015: BD 2,632,266).

17. FINANCE COSTS

	2016 BD '000	2015 BD '000
Interest on borrowings (Note 11)	**562**	721

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

18. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging

	2016 BD '000	2015 BD '000
Employees' costs and benefits:		
End-of-service benefits (Note 12)	75	105
Employees costs	6,887	7,799
	6,962	7,904
Site rental	3,159	2,681
Provision for doubtful debts and slow moving inventories	1,252	1,800
Public relations and business promotion cost	1,847	2,113
Depreciation (Note 8)	9,779	9,521
Amortization expense (Note 9)	10,651	12,957
License fees (Note 18.1)	2,243	2,245
Management fees(Note 18.2)	1,975	2,162

18.1 License fees comprise of Mobile license fees and Wimax frequency licenses fees payable to the TRA of Bahrain. As per the agreement dated April 22, 2003 between the Company and the TRA, the Company has to pay 0.8% of the total annual revenue every year to the TRA in respect of the license fees and fixed fee for microwave frequency license.

18.2 As per an agreement dated December 28, 2003 as amended on December 29, 2013, between the Company and the Parent Company, the Parent Company provides different management services to the Company against management fees of 3% on the annual gross revenue as defined in the agreement.

19. EARNINGS PER SHARE

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2016 BD '000	2015 BD '000
Profit for the year	4,254	5,147
Number of shares		
Weighted average number of shares in issue (in thousands)	368,000	368,000
Basic and diluted earnings per share	Fils 12	Fils 14

Basic and diluted earnings per share are same since the Company has not issued any instrument that would have a diluting effect.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

20. RELATED PARTIES

Related party transactions represent transactions with related parties as defined in International Accounting Standard 24: "Related Party Disclosures" (these include shareholders, directors and key management personnel including their close family members and companies in which they exercise control, joint control or significant influence). Related party transactions are carried out at arms length and at rates approved by the Company's management. Amounts due from / to related parties are unsecured, bear no interest and have no fixed repayment terms. Management considers these to be current assets and current liabilities as appropriate.

Transactions with related parties are summarised as follows:

	2016 BD '000	2015 BD '000
Office rent and maintenance costs	980	980
Site and outlet rent	49	48
Management fees (Note 18.2)	1,975	2,162
Royalty fees	-	208

During the year, Management accrued for Board of Directors' remuneration (Note 10) an amount of BD 218,513 (2015: BD 306,800). The amount due for the year 2016 is subject to the approval by the Shareholders' general assembly.

Balances with related parties are as follows:

	2016 BD '000	2015 BD '000
Due from related party balances (Note 6)		
Sudanese Mobile Telephone Company Ltd	13	13
Zain – South Sudan	1	1
Zain – Lebanon	1	1
	15	15
Due to related party balances (Note 10)		
Zain Group Holding-Bahrain S.P.C.	8,679	8,500
Zain – Jordan	3	2
	8,682	8,502

Transactions and balances involving telecommunication services in the ordinary course of business are not reported above.

Compensation of key management personnel:

Remuneration of members of key management during the year was as follows:

	2016 BD '000	2015 BD '000
Short-term benefits	1,165	1,175
Other long-term benefits	95	72
	1,260	1,247

The above compensations were in the form of salaries, allowances and bonus.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

21. SEGMENT INFORMATION

The Company operates in telecommunication and related services business and its activities are organised into three main activities, mobile operation, fixed broadband operation and trading of handsets and accessories. Management considers that these business activities are not separate operating units. The Company carries out its activities in the Kingdom of Bahrain.

22. CONTINGENT LIABILITIES AND COMMITMENTS

22.1 Contingent liabilities:

As of the year end, the Company had the following outstanding items:

	2016 BD '000	2015 BD '000
Letters of guarantee	716	743

22.2 Capital commitments:

Capital expenditure contracted at the reporting date but not provided for, are as follows:

	2016 BD '000	2015 BD '000
Capital expenditures	7,641	11,370

22.3 Commitments under operating leases:

The Company only operates as a lessee. Operating leases relates substantially to its office, branches and properties on which telecommunication equipment have been installed with lease terms of between 1 to 10 years. These operating lease contracts contain clause for auto renewal on the expiry of the term for the same period as agreed at the inception of the lease. The Company does not have option to purchase these properties at the expiry of the lease periods.

Payments recognised as an expense

	2016 BD '000	2015 BD '000
Minimum lease payments	4,737	4,209

Non-cancellable operating lease commitments

	2016 BD '000	2015 BD '000
Within one year	4,172	2,209
Later than one year and not later than five years	7,784	8,720
Later than five years	2,935	2,443
	14,891	13,372

22.4 Other financial commitments outstanding at the reporting date are BD 728,000 (2015: BD 512,000).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

23. FINANCIAL INSTRUMENTS

Financial instruments consist of financial assets and financial liabilities.

Financial assets of the Company include cash and bank balances and receivables.

Financial liabilities of the Company include accounts payables, accruals and borrowings.

23.1 Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the bases of measurement and the bases for recognition of income and expenses), for each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

23.2 Categories of financial instruments

The summary of financial assets and liabilities is as follows:

	2016 BD '000	2015 BD '000
Financial assets		
Cash and bank balances at amortized cost	5,364	7,822
Receivables at amortized cost	19,436	19,784
	24,800	27,606
Financial liabilities at amortized cost	**48,883**	49,823

23.3 Capital risk management

The Company manages its capital to ensure that the Company will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The Company's overall strategy remains unchanged from 2015.

The capital structure of the Company consists of equity comprising share capital, share premium, reserves and net debts which are defined as term loans net of cash and bank balances.

The gearing ratio at the end of each year was as follows:

	2016 BD '000	2015 BD '000
Debts (i)	9,661	17,447
Cash and bank balances (Note 5)	(5,364)	(7,822)
Net debts	4,297	9,625
Equity (all capital and reserves)	65,354	62,940
Net debt to equity ratio	**6.57%**	15.29%

(i) Debt is defined as term loans, as shown in Note 11.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

23. FINANCIAL INSTRUMENTS (Continued)

23.4 Financial risk management objectives

The Company's finance function manages the financial risks relating to the operations of the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (which consists of equity price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk.

The risks associated with financial instruments and the respective approach to manage such risks are described below:

23.5 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices such as interest rates and foreign currency rates. The Company's activities expose it primarily to the financial risk in changes in interest rates and foreign exchange rates which are described below:

23.5.1 *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates.

The Company's term loan facilities carry variable interest rate and are long-term in nature (Note 11).

The Company reviews the market analysis and expectations for interest rate movements as the basis on which the Company decides to utilise floating or fixed rates for its interest bearing liabilities, if any.

The Company's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Company's profit for the year ended December 31, 2016 would decrease/increase by BD 48,305 (2015: decrease/increase by BD 87,235). This is mainly attributable to the Company's exposure to interest rates on its variable rate borrowings.

23.5.2 *Currency Risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company's assets and liabilities are denominated in Bahraini Dinars, United States Dollars and Euros. As the Bahraini Dinar is pegged to the United States Dollar, balances in the US Dollar are not considered to represent a significant currency risk. However, balances denominated in the Euro are exposed to movements in exchange rate. A Euro time deposit was made by the Company to mitigate the risk of Euro exchange rate movements on its Euro denominated financial liabilities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

23. FINANCIAL INSTRUMENTS (Continued)

23.5 Market risk (Continued)

23.5.2 *Currency Risk* (Continued)

The carrying amounts of the Company's Euro denominated monetary financial assets and liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2016 BD '000	2015 BD '000	**2016** BD '000	2015 BD '000
Euros	**3**	17	-	3

Foreign currency sensitivity analysis

The Company is mainly exposed to the Euro.

The following table details the Company's sensitivity to a 10% variation in the Bahraini Dinar against the Euro. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A negative number below indicates a decrease in profit where the Bahraini Dinar strengthens 10% against the Euro. For a 10% weakening of the Bahraini Dinar against the Euro, there would be an equal and opposite impact on the profit, and the balances below would be positive.

	Euro Impact	
	2016 BD '000	2015 BD '000
Profit or loss	-	1

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

23.6 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company.

For concentration of credit risk refer to note 6. The credit risk on liquid funds is limited because the counterparties are banks with good financial standing.

The Company's maximum exposure to credit risk is as follows:

	2016 BD '000	2015 BD '000
Cash and bank balances (Note 5)	5,364	7,822
Receivables	19,436	19,784
Letters of guarantee (Note 22)	716	743
	25,516	28,349

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FOR THE YEAR ENDED DECEMBER 31, 2016

23. FINANCIAL INSTRUMENTS (Continued)

23.7 Liquidity risk

Liquidity risk is the risk that funds will not be available to settle liabilities when they fall due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. To mitigate the risk, management has diversified funding sources and assets are managed with a liquidity approach, maintaining a healthy balance of cash and cash equivalents. The Company manages the maturities of the Company's assets and liabilities in way to be able to maintain an adequate liquidity. The Company has obtained term loan facilities from 3 local banks with a limit of BD 10.5 million, BD 13 million and BD 7.5 million respectively. The Company has unutilised bank overdraft facility of BD 10.5 million with three commercial banks in the Kingdom of Bahrain.

23.7.1 *Liquidity and interest risk tables*

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate %	Less than 1 month BD '000	1-3 months BD '000	3 months to 1 year BD '000	1 year to 5 years BD '000	Total BD '000
2016						
Non-interest bearing	-	6,563	11,958	17,329	3,372	39,222
Variable interest bearing	4.08	34	2,342	5,669	1,915	9,960
		6,597	**14,300**	**22,998**	**5,287**	**49,182**
2015						
Non-interest bearing	-	7,433	6,579	12,420	5,944	32,376
Variable interest bearing	3.50	50	2,410	9,913	5,926	18,299
		7,483	8,989	22,333	11,870	50,675

The following tables detail the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate %	Less than 1 month BD '000	1-3 months BD '000	3 months to 1 year BD '000	Total BD '000
2016					
Non-interest bearing	**-**	**8,335**	**6,895**	**9,570**	**24,800**
2015					
Non-interest bearing	-	4,115	4,521	18,970	27,606

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

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. Consequently, differences may arise between the carrying values and the fair value estimates.

The Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values as at the reporting dates.

25. STATEMENT OF CASH FLOWS

The following non-cash transactions were excluded from the statement of cash flows:

	2016 BD '000	2015 BD '000
Purchase of other intangible assets (Note 9.4)	1,258	-
Purchase of property and equipment	**5,976**	1,995