



# Zain Group

## Company Profile

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## COMPANY OVERVIEW

Zain Group (Zain or “the company”) is a mobile telecommunications provider in the Middle East. The company offers wireless services and has commercial presence in seven countries across the Middle East. Zain offers a comprehensive range of mobile voice and data services to individual and business customers. The company is headquartered in Kuwait City, Kuwait and employed about 6,000 people by the end of FY2010.

The company recorded revenues of KWD1,351.7 million (\$4,732.1 million) during the financial year ended December 2010 (FY2010), an increase of 7% over 2009. The operating profit of the company was KWD449.5 million (\$1,573.6 million) in FY2010, an increase of 3.6% over 2009. The net profit was KWD1,062.8 million (\$3,720.8 million) in FY2010, compared to a net profit of KWD195 million (\$682.7 million) in 2009.

## KEY FACTS

<b>Head Office</b>	Zain Group 13083 Safat Kuwait City KWT
<b>Phone</b>	965 2 4644444
<b>Fax</b>	965 2 4641111
<b>Web Address</b>	<a href="http://www.zain.com">http://www.zain.com</a>
<b>Revenue / turnover (KWD Mn)</b>	1,351.7
<b>Financial Year End</b>	December
<b>Employees</b>	6,000
<b>Kuwait Stock Exchange Ticker</b>	ZAIN

## **BUSINESS DESCRIPTION**

Zain Group (Zain or “the company”) is a mobile and data services operator, primarily operating in Middle East. The company has a commercial foot print in seven Middle Eastern and African countries providing a comprehensive range of mobile voice and data services. Zain caters to over 39.6 million active individual and business customers across these regions.

The company’s operations span across a single business division: telecommunications and related services.

In the Middle East Zain operates in Bahrain, Jordan, Kuwait, Iraq, Saudi Arabia and Sudan under the brand Zain, and in Lebanon as mtc touch, under a management contract. Additionally, the company in a 50/50 partnership with Al Ajjal Investment Fund Holding holds a 31% share in Wana, the third mobile telecom operator in Morocco. In 2010, the company divested 100% stake in Zain Africa, its African operational unit.

## **HISTORY**

The company was established as the first mobile telecom company, Mobile Telecommunications Company (MTC), in the Kuwait region in 1983.

In 1994, the company introduced GSM in Kuwait. A few years later, in 1999 the company was among the first to introduce prepaid services in the region.

The company signed a branding agreement with Vodafone in Kuwait, an operation branded as MTC-Vodafone in 2002. In the following year, MTC acquired 91.5% of Fastlink, Jordan's leading mobile operator for \$424 million taking its total holding to 96.5%.

In the same year, MTC was awarded a second GSM license in Bahrain under the MTC Vodafone brand. Later in 2003, the company was awarded one of three GSM licenses in Iraq. The brand that was launched was called MTC Atheer.

The company was awarded a management agreement for one of Lebanon's mobile operations in 2004. This operation was branded MTC Touch.

In 2005, MTC entered into an agreement to acquire Celtel Africa for \$3.36 billion. This transaction was completed in the same year, when the company completed the acquisition of 85% of Celtel International's (Celtel) shares for \$2.84 billion.

During the same year, MTC's subsidiary, Celtel, acquired Madacom, an operator based in Madagascar with over 200,000 customers.

In 2006, MTC's subsidiary, Celtel, acquired the remaining 61% of Mobitel in Sudan from Sudatel, thus taking the company's ownership to 100%.

Celtel also acquired a controlling stake of 65% in Vmobile, one of Nigeria's leading mobile telecom operators with over five million customers for approximately \$1 billion in 2006. Subsequently, MTC's subsidiary, Celtel, launched One Network, a borderless mobile network allowing customers to move freely across geographic borders without roaming call surcharges and without having to pay to receive incoming calls.

In 2007, MTC Kuwait deployed a nationwide 3G mobile broadband network in Kuwait using Motorola mobile phones for high speed downlink packet access (HSDPA) service to increase download speeds and to provide other services. The company acquired 100% of the outstanding shares of Celtel for \$467 million. Subsequently, the company's subsidiary, Celtel, expanded its One Network to the Republic of Congo, Gabon, and Democratic Republic of Congo. In the same year, the company changed its name from Mobile Telecommunications Company to Zain, which became the company's corporate brand. Zain launched Zain@home, the world's first nationwide WiMAX network in Bahrain.

In the same year, Celtel International signed an agreement to acquire 75% of Western Telesystems (Westel) from the Government of Ghana. The Government of Ghana remained a shareholder in Westel with a 25% holding through the Ghana National Petroleum. In the same year, Celtel extended One Network to an additional six countries to include Burkina Faso, Chad, Malawi, Niger, Nigeria and Sudan. During the end of 2007, the company purchased 100% of the share capital of Iraqna Company for Mobile Phone Services (Iraqna), a subsidiary of Orascom Telecom Holding.

Zain signed a three year framework agreement with Det Norske Veritas (DNV) in 2008, which enables Zain's operations in the Middle East and sub-Saharan Africa to be compliant with the rigorous international ISO standards. In the same year, Zain in Jordan, rolled out its mobile roaming services on aircrafts. Following this, the other operators in Zain Group including Bahrain, Kuwait, Iraq, Lebanon, Sudan, Tanzania, Kenya, Uganda and Nigeria also provides the same services on aircrafts. Also, in the same year, Zain extended its One Network mobile service to four countries in the Middle East including Bahrain, Iraq, Jordan and Sudan.

Later in 2008, Zain Iraq and Nokia Siemens Networks signed a contract for a \$150 million under which Zain would increase capacity and simplify and modernize its existing core network.

In the same year, Zain re-branded its entire African operations from Celtel to Zain. Subsequently, the company launched commercial services in the Kingdom of Saudi Arabia. Also, in the same year, Zain started commercial services in Ghana with the launch of the first 3.5G network on the continent outside South Africa.

In 2009, the company won the Lebanese mobile management agreement tender for one of Lebanon's two mobile operations, MIC2 branded as mtc touch, for an additional year commencing February 2009. In the same year, Zain launched Zap, a mobile banking service, to about 100 million people in East Africa. Subsequently, the company agreed to invest through a newly established joint venture, Zain Al Ajjal, an amount of MAD2.850 billion (\$324 million) in return for 31% of Wana, the third mobile telecom operator in Morocco.

Zain entered into an exclusive agreement with the pan-Arab audio-video company, Rotana Holding Group, in 2009, launching the latter's digital entertainment productions to Zain customers initially in Kuwait, with other Zain Middle East operations to follow. In the same year, the company launched cross border data services across the Middle East and in East Africa, enabling high speed data access. Subsequently, Zain and Palestinian Telecommunications entered into an agreement for a share-for-share exchange, which will allow Zain to acquire a majority interest in Paltel with an equity shareholding of 56.53% in exchange for Paltel owning 100% of Zain Jordan.

Furthermore in 2009, Zain in Nigeria entered into a strategic five year outsourcing agreement with Ericsson, under which the latter will manage most of the network and field operations for Zain Nigeria's wireless networks and operating support systems. In the same year, the company also entered into an alliance with Western Union to offer money transfer services in Africa and the Middle East through its Zap platform. Subsequently, Zain also partnered with CitiBank and Standard Chartered Bank to expand its mobile banking service, Zap. The company planned to launch internet high speed packet

access (I-HSPA) and the Middle East Region's first long term evolution (LTE) technology with network upgrade by Nokia Siemens Networks in 2009.

Later in the same year, Zain expanded its 'One Network' platform to Egypt in a strategic partnership with Mobinil. Subsequently, the company's management confirmed that the merger agreement between Zain and Paltel announced earlier this year will not take place as Zain did not receive the required government approvals. Also, Nokia Siemens Networks was awarded a strategic five-year contract to optimize, modernize and manage Zain's over 3,000 multi-vendor mobile networks sites in Kenya, Tanzania and Uganda. Zain in partnership with Novatel Wireless, a provider of wireless broadband access solutions, launched the wireless device, Zain Mifi Intelligent Mobile Hotspot, initially in its Kuwait operation in 2009. The company announced plans to extend this service to all other Zain operations by second quarter of 2010.

In February 2010, Zain received an offer in relation to its operations in Africa excluding Morocco and Sudan from Bharti Airtel. In the same month, the company introduced "My Business", a package that is designed to assist and improve the efficiency of mobile usage for business people and their workforce, in Nigeria.

Zain introduced its mobile commerce service, Zap, in Ghana in March 2010. In the same month, the company signed a definitive agreement for the sale of 100% of Zain Africa, its African business excluding its operations in Morocco and Sudan, to Bharti Airtel, for an enterprise value of \$10.7 billion.

In June 2010, the company expanded its One Network platform to South Africa in a strategic partnership with Cell C, a mobile operator in South Africa. In the same month, Zain completed the sale of its African operations to Bharti Airtel. Subsequently, GETMO Arabia and Zain signed an agreement to provide digital music aggregation services to over 35 million Zain customers across seven countries in the Middle East. Also, in June 2010, Zain and its operating unit in Jordan signed two cooperative agreements with The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) to support and finance the agency's largely under-funded health and educational projects.

The company launched Zain E-mal, a mobile wallet service which is a mobile commerce service delivery platform in January 2011. The product was first launched in Jordan and Zain expects to roll out the product across Middle East.

In March 2011, the company signed an agreement with the Lebanese Ministry of Telecommunication to manage the mtc touch network on behalf of the Lebanese government for another year starting February 2011. In the same month, Zain launched the high speed Zain Broadband services using the latest HSPA+ technology in Jordan.

Zain Saudi Arabia became the first mobile network operator in the Middle East to commercially launch 4G long-term evolution network, in September 2011.

## KEY EMPLOYEES

<b>Name</b>	<b>Job Title</b>	<b>Board</b>
Asa'ad Al Banwan	Chairman	Non Executive Board
Abdul Aziz Al Nafisi	Deputy Chairman	Senior Management
Abdul Mohsen Al Faris	Director	Non Executive Board
Jamal Al Kandary	Director	Non Executive Board
Shaikha Khaled Al Bahar	Director	Non Executive Board
Bader Nasser Al Kharafi	Director	Non Executive Board
Jamal Shaker Al Kazemi	Director	Non Executive Board
Waleed Abdullah Mishary Al Roudan	Director	Non Executive Board
Nabeel Bin Salamah	Chief Executive	Senior Management
Khalid Al-Omar	Chief Technology Officer; Chief Executive Officer and Managing Director, Zain Saudi Arabia	Senior Management
Ossama Matta	Chief Financial Officer	Senior Management
Elfatih M. Erwa	Managing Director, Zain Sudan	Senior Management
Mohammed Zainalabedin	General Manager, Zain in Bahrain	Senior Management
Emad Makiya	Chief Executive Officer, Zain Iraq	Senior Management
Ahmad Al Hanandeh	Chief Executive Officer, Zain Jordan	Senior Management
Claude Bassil	General Manager, MTC Touch Lebanon	Senior Management
Nabeel Bin Salamah	Acting Chief Executive Officer of Zain Kuwait	Senior Management

## **KEY EMPLOYEE BIOGRAPHIES**

### **Asa'ad Al Banwan**

Board: Non Executive Board  
Job Title: Chairman  
Since: 2005

Mr. Al Banwan has been the Chairman at Zain since 2005. Currently, he also serves as the Vice Chairman and CEO of the National Investment Company since 2000. At National Investment Company, Mr. Al Banwan was the Chairman and Managing Director from 1999, and Managing Director and Member of the Board since 1996. In addition, he is a Member of the Board of Directors of several regional and international companies. Mr. Al Banwan is also Vice Chairman of the Kazma Sports Club.

### **Abdul Aziz Al Nafisi**

Board: Senior Management  
Job Title: Deputy Chairman  
Since: 2010

Mr. Al Nafisi has been the Deputy Chairman at Zain since 2010. He started his career with Burgan Bank in 1978. During 1992–96, Mr. Al Nafisi served as a Member of the Board and CEO of International Project Investment Group, and was the Chairman of Al Dar Finance during 1998–2003. He has been a Member of the Board of the Arab Telecom from 2000 and Chairman since 2003. In addition, Mr. Al Nafisi is the CEO of the Al Nafisi National Group since 1986.

### **Abdul Mohsen Al Faris**

Board: Non Executive Board  
Job Title: Director  
Since: 1999

Mr. Al Faris has been a Director at Zain since 1999. Previously, he was the Chairman for Kuwait Cable. Currently, Mr. Al Faris also serves as a Board member of the Egyptian Kuwaiti Holding Company. He earned his bachelor's degree in Electrical Engineering from Kuwait University in 1967.

### **Jamal Al Kandary**

Board: Non Executive Board  
Job Title: Director  
Since: 1999

Mr. Al Kandary has been a Director at Zain since 1999. He has been the Vice-Chairman of Iraq Kuwaiti Holding since 2004. Mr. Al Kandary has also been a Member of the Board of Zain Jordan since 2002. He has previously held the position of Chairman of Al Ahlia Real Estate during 1995–2002. He holds a Bachelor's degree in Law from the University of Beirut in 1992, and a Degree in Literature from Kuwait University in 1983.

### **Shaikha Khaled Al Bahar**

Board: Non Executive Board  
Job Title: Director

Ms. Al Bahar is a Director at Zain. She is the CEO at National Bank of Kuwait and is also a Board Member of various divisions within NBK. Ms. Al Bahar serves as a Chairperson at NBK Lebanon, Al Assima Real Estate and at Audit Committee emanating from the Board of Directors of International Bank of Qatar–IBQ. She is also a Board Member at International Bank of Qatar, National Bank of Kuwait (International), Turkish Bank, NBK Global Asset Management, Intra Investment and is also a Member of Board of Trustees at Kuwait University-College of Business Administration.

### **Bader Nasser Al Kharafi**

Board: Non Executive Board  
Job Title: Director

Mr. Al Kharafi is a Director at Zain. He currently holds office as Chairman, Vice President and Board Member of several businesses as part of the Kharafi conglomerate. These senior roles inside the Kharafi group include Chairman and Managing Director of Gulf Cables & Electrical Industries; and Group Vice President, Mohammed Abdulmohsin Al-Kharafi & Sons WLL. Outside the Kharafi Group, Mr. Al Kharafi is a General Manager of Al-Khair National for Stocks & Real Estate, Member of the Board at Refreshment Trading; and is also the Vice Chairman of UNIEXPO. Also, he is a Member of the Board at INJAZ and is a Member of Industrial Advisory Board of Mechanical Engineering Department at Kuwait University.

### **Nabeel Bin Salamah**

Board: Senior Management  
Job Title: Chief Executive  
Since: 2010

Mr. Bin Salamah has been the Chief Executive at Zain since 2010. In 2009, he served as Kuwait's Minister of Communication, Electricity and Water following many years in the public sector and formerly served as General Manager of a mobile operator in 1997. Mr. Bin Salamah has a Bachelor of Electronic Engineering from the University of Dayton.

### **Khalid Al-Omar**

Board: Senior Management  
Job Title: Chief Technology Officer; Chief Executive Officer and Managing Director, Zain Saudi Arabia  
Since: 2011

Mr. Al Omar has been the Chief Technology Officer at Zain and also the CEO and Managing Director at Zain Saudi Arabia since 2011. Until 2010, he served as the CEO of Zain Kuwait and has been with the company for more than 25 years having joined in 1986. Previously, Mr. Al Omar served as the Chief Operating Officer at Zain Kuwait and also served as its Chief Technology Officer. He holds a Bachelor of Science degree in Electronic Engineering Technology from Colorado Technical College and has completed Advanced Management Program at Harvard Business School.

### **Ossama Matta**

Board: Senior Management  
Job Title: Chief Financial Officer  
Since: 2010

Mr. Matta has been the Chief Financial Officer at Zain since 2010. He joined the company in 2004 as the Chief Financial Officer of the Lebanon 'mtc touch' operation, and in 2007 assumed the role of Chief Financial Officer at Zain Kuwait. In 2008, Mr. Matta was promoted as the Zain Group Middle East Finance Officer. He attained an Executive MBA degree from the American University of Beirut, and is a Certified Public Accountant.

### **Elfatih M. Erwa**

Board: Senior Management  
Job Title: Managing Director, Zain Sudan  
Since: 2008

Mr. Erwa has been the Managing Director at Zain Sudan since 2008. During 2006–08, he practiced as a Private Consultant. Mr. Erwa was an Ambassador as Permanent Representative of Sudan to the United Nations in New York, from 1996 till 2005. He served Government of Sudan in 1989 and was appointed a State Minister in the Presidency of the Republic of Sudan as National Security Advisor to the President during the period of 1989 to 1995 and was the State Minister of Defense during 1995–96.

### **Mohammed Zainalabedin**

Board: Senior Management  
Job Title: General Manager, Zain in Bahrain  
Since: 2008

Mr. Zainalabedin has been the General Manager at Zain in Bahrain since 2008. Prior to assuming the current role, he served as the Chief Commercial Officer at Zain Bahrain. Previously, Mr. Zainalabedin served as the Retail Sales Manager and as the Manager of Enterprise Applications within the IT department. Prior to joining the company, he worked in IT field at International Turnkey Systems where he held the position of the Core Banking Group Manager in the banking group.

## **Emad Makiya**

Board: Senior Management  
Job Title: Chief Executive Officer, Zain Iraq  
Since: 2010

Mr. Makiya has been the CEO at Zain Iraq since 2010. Previously, he was the Middle East Director of Sales for Motorola Networks and before that he was the General Manager of Middle East and Africa Extreme Networks. Mr. Makiya also held various positions at the NASA space science program where he worked with Lockheed Martin and Boeing. He holds a Bachelor Degree in Information and Computer Systems from the University of Houston.

## **Ahmad Al Hanandeh**

Board: Senior Management  
Job Title: Chief Executive Officer, Zain Jordan  
Since: 2011

Mr. Al Hanandeh has been the CEO at Zain Jordan since 2011. He joined the company as the Chief Financial Officer at Zain Sudan in 2011. Prior to this, Mr. Al Hanandeh was the General Manager of Posta Plus for four years. During 1994–2006, he worked with Aramex Group initially joining as an Accountant and rising to Country Manager of several of Aramex's Asian operations. Mr. Al Hanandeh graduated in the Banking and Finance from Yarmouk University, Jordan.

## **Claude Bassil**

Board: Senior Management  
Job Title: General Manager, MTC Touch Lebanon  
Since: 2008

Mr. Bassil has been the General Manager at MTC Touch Lebanon, an operating unit of the company, since 2008. At MTC Touch, Lebanon, he has previously held the positions of Chief Information Officer and Chief Commercial Officer. Mr. Bassil has over 18 years of progressive experience in the Telecom and high tech sector including IT and telecom management. He holds a Bachelor Degree in Telecommunication Engineering from L'Ecole Superieure d'Ingenieurs de Beyrouth, an MBA in Corporate Finance from the American University of Beirut and a Post Graduate Certificate in Consumer Marketing from INSEAD.

## **MAJOR PRODUCTS AND SERVICES**

Zain Group (formerly MTC) is a mobile telecommunications provider in the Middle East. The company's key products and services include the following:

Mobile voice services  
Data services  
Mobile commerce

## REVENUE ANALYSIS

### Zain Group

The company recorded revenues of KWD1,351.7 million (\$4,732.1 million) during the financial year ended December 2010 (FY2010), an increase of 7% over 2009. For FY2010, Iraq, the company's largest geographic market, accounted for 31.8% of the total revenues.

Zain generates revenues through a single business division: telecommunications and related services (100% of the total revenues during FY2010).

### Revenues by Division

In FY2010, the telecommunications and related services division recorded revenues of KWD1,351.7 million (\$4,732.1 million), an increase of 7% over 2009.

### Revenues by Geography\*

Iraq, Zain's largest geographical market, accounted for 31.8% of the total revenues in FY2010. Revenues from Iraq reached KWD429.7 million (\$1,504.3 million) in 2010, an increase of 11.2% over 2009.

Kuwait accounted for 25.5% of the total revenues in FY2010. Revenues from Kuwait reached KWD345 million (\$1,207.7 million) in 2010, a decrease of 1.9% compared to 2009.

Sudan accounted for 24.3% of the total revenues in FY2010. Revenues from Sudan reached KWD328 million (\$1,148.3 million) in 2010, an increase of 14.6% over 2009.

Jordan accounted for 10.9% of the total revenues in FY2010. Revenues from Jordan reached KWD147.3 million (\$515.7 million) in 2010, an increase of 6.6% over 2009.

Bahrain accounted for 5.3% of the total revenues in FY2010. Revenues from Bahrain reached KWD71.2 million (\$249.2 million) in 2010, a decrease of 5.2% compared to 2009.

Lebanon accounted for 2.3% of the total revenues in FY2010. Revenues from Lebanon reached KWD30.6 million (\$107.1 million) in 2010, an increase of 18% over 2009.

\*Percentages are rounded off.

## SWOT ANALYSIS

Zain Group (formerly MTC) is a mobile telecommunications provider in the Middle East. The market shares enjoyed by the company indicate formidable scale and access to large subscriber base which offer significant advantages. However, high mobile penetration rates in the key markets may affect Zain's revenue growth and profitability in coming years.

<b>Strengths</b>	<b>Weaknesses</b>
Significant market position Balanced geographic footprint Divestment of African operations	Consistent decline in ARPUs and customer declines
<b>Opportunities</b>	<b>Threats</b>
Iraq and Sudanese markets to offer significant growth opportunities Mobile data traffic to enhance ARPUs Focus on mobile commerce in line with increased demand for such services	Mature mobile markets offer limited opportunities for growth Exchange rate fluctuations Increasing competition

### Strengths

#### Significant market position

Zain is one of the largest mobile operators in Middle East. The company has over 37 million customers, which is a significant increase from about 30 million in 2009. The customer base increased at a CAGR of 50% between 2005 and 2010. Zain is the market leader in five of the seven countries in which it operates. The company enjoys market leadership in Sudan, Iraq, Jordan, Bahrain and Lebanon while it has significant market presence in Kuwait and Saudi Arabia. In Iraq, Zain ended 2010 with a 55% market share and had about 12 million customers at the end of FY2010. In Kuwait the company enjoyed a 44% share with approximately 2 million customers and in Sudan it had a 59% market share and about 10 million customers. In Jordan, Saudi Arabia and Lebanon, it enjoys market shares of 40%, 16% and 53% and had 3 million, 8 million and 1.5 million customers respectively. In Bahrain, Zain has market share of 32% with about 0.5 million customers and was further able to secure 43% revenue share of the total mobile revenues in the region. The market shares enjoyed by the company indicate formidable scale and access to large subscriber base which offer significant advantages. These are not easy to replicate and Zain through the scale is better equipped to take market share from smaller peers.

#### Balanced geographic footprint

Although Zain operates only in selected markets in Middle East, the company has made several efforts to establish a balanced footprint. The company operates across seven adjacent countries, made up of a balanced range of markets at various stages of maturity. While the exponential growth is expected from Iraq, Sudan and Saudi Arabia, Zain will also be able to maintain value and healthy growth from established and relatively highly-penetrated operations in Bahrain, Jordan and Kuwait, as well as Lebanon. Therefore, the company's well balanced geographic footprint provides access to high growth markets as well as the stable markets.

#### Divestment of African operations

Divesting the African assets has helped Zain settle its financial obligations and invest a large part of the financial gains in its main and cash generative Middle East markets where the company aims at focusing, going forward. In 2010, the company successfully completed the divestiture of African operations to Bharti Airtel for \$10.7 billion. This decision enables Zain to focus on fewer, but highly cash generative markets in the Middle East. Being in one region with many commonalities allows the company greater opportunities for cross-pollination and cost synergies among its operations. The divestment therefore enabled the company to better tap into the growth offered in its core markets.

### **Weaknesses**

#### Consistent decline in ARPUs and customer declines

Zain has been experiencing a consistent decline in ARPUs across four of the regions it operates in. In Sudan the ARPU declined from \$16 in 2008 to \$12 and \$10 in 2009 and 2010 respectively. ARPU in Iraq declined from \$13 in 2008 to \$11 in 2010; in Jordan from \$19 to \$16 and in Bahrain from \$28 to \$27. Falling ARPUs are a result of intense price competition and also lower pace of adoption of high value added and data services. Falling ARPUs will be a drag Zain's revenue growth potential and profitability.

Additionally, the number of customers has declined in Jordan and Bahrain. In Bahrain, customer base declined by 24% from 0.7 million in 2009 to 0.5 million in 2010. Similarly in Jordan, Zain experienced a slight decrease of customers from 2,493,000 in 2009 to 2,488,000. The decline in customer base could be a proxy for decreasing appeal of the company's customers. Also, the competitors have been successful in taking customers from Zain. Both these factors highlight competitive disadvantage which could affect the revenues adversely.

### **Opportunities**

Iraq and Sudanese markets to offer significant growth opportunities

Zain aims at strengthening its presence in Iraq and Sudan, two of the fastest growing markets in Middle East. Sudanese mobile markets have low penetration levels which stood at a mere 48.5% by the end of March 2011, indicating wide opportunity offered by the company. According to the industry estimates, Sudan's mobile market is estimated to increase by 18.5% in users in 2011, followed by growth of 12.8% in 2012. In the five years to 2015, the estimates indicate an average annual growth rate of 11.2%. By the end of 2015, the mobile market is estimated to have a penetration rate of 91%. Similar strong growth patterns are estimated in Iraq as well. The industry estimates suggest that Iraq had just more than 24 million mobile subscribers at the end of June 2011, reflecting a growth rate of 10.4% year on year. The forecast indicates that the market is estimated to have more than 25 million users at the end of 2011, equivalent to a penetration rate of 75.6%. By the end of 2015, Iraq's mobile penetration rate is estimated to have risen to almost 93%. Amid the mature markets in Middle East, Iraq and Sudan provide strong growth opportunity. Zain through its strong presence in these markets is well positioned to tap into these high growth markets.

#### Mobile data traffic to enhance ARPUs

The company's core Middle East markets will witness strong growth in mobile data traffic. While the trend is similar world over, according to the industry estimates, the Middle East and Africa will have the strongest mobile data traffic growth of any region at 129% CAGR, increasing 63-fold during 2011–15. The voice revenues have been declining dragging down the ARPUs. Rising mobile data traffic will ensure higher revenues as ARPUs increase and the telecom companies will be better positioned to absorb the rising costs. Providing data services was an important area of focus across Zain's operations. The company has launched 3G services across several of its markets and high speed internet to cater to the rising demand for wireless data consumption. Consequently, during the first half of 2011, the company has witnessed significant growth in broadband revenues particularly as a result of increased use of social networking sites and applications via smart phones and tablets. Zain will benefit from strong growth in the mobile data traffic in the Middle East, and is well positioned in these regions to tap into the growth to enhance its revenues.

#### Focus on mobile commerce in line with increased demand for such services

Zain has focused on bringing mobile commerce to the Middle East, targeting the unbanked, the youth, and the low income expat segments in the region. Zain Jordan was the first mobile operator in the Middle East to launch 'E-mal' in January 2011 allowing customers to deposit and withdraw cash from their m-wallet, send money to Zain Jordan customers even if they are not registered with the service, settle their own bills or any other Zain Jordan's customer bill, as well as top up theirs or any other Zain Jordan's customer airtime account. Furthermore, Zain Jordan is partnering with Capital Bank to introduce 'Zain E-mal' in addition to signing agreements with Tamweelcom to provide Micro-Finance services and with Middle East Payment Services which will also provide customers with a branded MasterCard.

The service will be further launched in Bahrain in the first quarter of 2011 and in the other Zain operations once regulatory approvals are obtained. After these launches Zain customers in Jordan and the other participating countries will be able to send and receive money with 'Zain E-mal' across borders using 'One Network' as the service delivery platform. Throughout 2011, in keeping up to

pace with technology advances and offerings, the company expects to continue to roll out appealing products and services in the mobile commerce field.

The mobile commerce in the Middle East is estimated to enjoy a robust appeal, it being the second fastest growing region after the US and Canada in mobile and telecommunication adoption. The industry estimates suggest that fast-growing number of mobile subscribers is expected to support the rise of mobile commerce throughout the region. The five year forecast estimates mobile commerce's potential reach to be 900 million subscribers in the Middle East by late 2011. The growth is estimated to continue at a strong pace. The company's foray into the growing mobile banking services segment will enable it to increase its revenues in the coming years.

## **Threats**

Mature mobile markets offer limited opportunities for growth

Zain operates in several mature mobile markets where the high penetration levels indicate imminent saturation. Kuwait's mobile penetration has already reached levels indicative of saturation. Furthermore, mobile penetration rates in Bahrain, Saudi Arabia and Jordan were over 100% at 181%, 171% and 106%, respectively by the end of 2010. The high penetrations in the market indicate saturation of the markets eliminating any chance of significant growth in the future through new subscribers.

The high penetration rates also signify weak prospects for the company to report growth, making it dependent on differentiation and value added services for future growth. Saturation in the key markets may affect Zain's revenue growth and profitability in coming years.

Exchange rate fluctuations

Zain operates in various countries, and is exposed to risk from changes in foreign currency rates. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. The company primarily faces foreign exchange risk with respect to the US dollar. Zain's operations outside the Kuwait are reported in the applicable local currencies and then translated into Kuwaiti Dinar at the applicable currency exchange rates for inclusion in its consolidated financial statements. The fluctuation of exchange rates for currencies of these countries in relation to Kuwaiti Dinar affects the company's operating results.

Currency fluctuations have a material impact on the company's financial condition, results of operations and cash flows. For instance, Zain's profitability was adversely impacted due to exchange rate fluctuations during first half of 2011. Zain, which holds mobile licenses in seven countries including Saudi Arabia, Sudan and Iraq, made foreign exchange losses of \$25 million in the three months ending September 2011. The company's attempts to reduce the effect of exchange rate fluctuations through a variety of hedging activities may not be sufficient or successful, resulting in an adverse impact on its results for FY2011 and also in the future.

### Increasing competition

Zain faces intense competition in several of its markets which has been further increasing in recent times. The Kuwait and Jordan markets are characterized by intense rivalry leading to pricing pressures and high customer retention as well as acquisition costs. Furthermore, the competition intensified in Sudanese telecom markets which contributed to falling ARPU rate. Earlier in 2010, the Iraqi government announced the award of a 4th national license to encourage further market liberalization and the competition is set to get fiercer with a potential acquisition of a majority stake in Korektel, which may affect the present ARPU levels. Competition is on the rise in Bahrain, coupled with the value-destroying price promotions. Entry of the third operator had led to a 5% year-on-year decrease in market share in 2010, primarily attributed to a fierce competition by the third entrant. With the liberalization of the telecom markets in several markets, several European operators are looking to expand presence in the region to drive growth from these lucrative markets.

Moreover, the new technology developments such as number portability in various markets may result in price wars between the players and increase the churn rates of the mobile subscribers. Increasing competition will continue to affect the company's market share and operating performance in coming years.

## **TOP COMPETITORS**

The following companies are the major competitors of Zain Group

Emirates Telecommunications Company  
MTN Group Limited  
Telkom SA  
Asiacell  
Korek Telcom  
Wataniya Telecom

## COMPANY VIEW

A statement by Nabeel Bin Salamah, Chief Executive at Zain Group is given below. The statement has been taken from the company's 2010 annual report.

A year of change, a year of success

2010 marked a turning point in the history of Zain. We successfully completed the divestiture of our African operations to Bharti Airtel, which now enables us to focus on fewer, but highly cashgenerative markets in the Middle East. Being in one region with many commonalities allows us greater opportunities for cross-pollination and cost synergies among our operations.

We maintain a formidable scale, being one of the largest mobile operators in the Middle East with over 37 million customers. Our footprint now covers a licensed population of 115 million people with over 9,150 network sites, across seven adjacent countries, made up of a balanced range of markets at various stages of maturity. Our exponential growth will essentially come from Iraq, Sudan and Saudi Arabia while we maintain value and healthy growth from our established and relatively highly-penetrated operations in Bahrain, Jordan and Kuwait, as well as Lebanon where we manage the operation on behalf of the local government. In fact, Zain is the market leader in five of the seven countries in which it operates.

Despite the significant changes affecting the Group in 2010, it was a landmark year in terms of financial and operational results. With a 23% increase in our Middle East customer base over 2009, our consolidated revenues amounted to US\$ 4.719 billion (KWD1.352 billion) and we reached an EBITDA of US\$2.151 billion (KWD 616 million) with a margin of 46%. Our net profit for the year increased an impressive 445% to US\$3.675 billion (KWD 1.063 billion), while our net operating profit increased 4% to US\$1.571 billion (KWD 449 million). These results are in line with a profitable growth strategy that we are confident will increase in the coming years with the expected significant revenue upside.

These results and the challenges faced by each of our operations make for an exciting business mix. In our parent operation, Kuwait, competition is fierce yet we have managed to strengthen our market leader position in all key financial indicators as well as by customers by being at the forefront of products and services innovation.

Our operation in Iraq solidified its position as growth driver for the Group, not only in terms of customers but also in EBITDA contribution. The Sudan operation continues to dominate the local market with the biggest customer share and is a healthy contributor to the Group, especially in terms of revenues and EBITDA contribution.

In Jordan, we face a very competitive environment, but we have been able to maintain our market lead with an increase in most of the relevant metrics.

In Bahrain, although 2010 marked the entry of an aggressive third mobile operator, we were able to maintain our ARPU levels and commercial strength.

Although being the third entrant in Saudi Arabia where penetration levels were in the vicinity of 100% when we launched, our operation in the Kingdom has exceeded expectations and hit many landmark targets in only its second year of commercial activities, most notably achieving a positive EBITDA and serving 8.4 million customers.

This success is founded on the solid basis of our assets and capabilities. The Zain brand remains strong and recognizable and it has been ranked as one of the top 500 brands by Brand Finance Global with brand equity valued at US\$2.9 billion. This year, our brand was once again awarded several international prizes and has garnered many plaudits. It maintains its emotional, multicultural and aspirational attributes, and serves as the best exponent of our “wonderful world” approach to the customers we serve.

Technology is also key enabler of our success. We have continued to improve our Network and IT performance, accelerating the deployment of data technology and leveraging customer analytics to help us create products and services tailored to customer’s needs. Over US\$ 1.3 billion of network capital expenditure was invested in our Middle East operations between 2008 and 2010 to provide a strong base for future growth enabling us to be at the forefront of mobile technology in the majority of the markets in which we operate.

Finally, we have shown proven management capabilities, leveraging a highly experienced team with significant telecoms experience. It adheres to strong corporate governance values and is backed up by an independent and experienced Board of Directors. Thanks also must go to our 6,000 employees who have contributed to Zain’s position as a regional powerhouse and to being the biggest company in terms of market capitalization on the Kuwait Stock Exchange. The group has improved the qualifications of, and significantly invested in its people and we are confident that we can tackle all future challenges.

#### Opportunities ahead

Our successes and achievements in 2010 are a great catalyst and base from which to continue challenging ourselves to pursue higher goals in the years to come. These are as diverse as ensuring the growth in certain markets, deploying new technologies and being at the forefront of products and services innovation. This is the Zain tradition.

Capturing the growth means our Iraqi, Sudanese and Saudi operations must attract an increasing number of new customers entering the mobile market, and for all the other operations to maintain their client base by always offering superior products and services. Meanwhile, our innovation objectives involve deploying the latest technologies, coupled with products and services that facilitate our customers’ lives on a daily basis.

To realize our business aspirations, we have devised an integrated strategy that will hopefully aid us, through organic growth, to reach 52 million customers, generate 6.3 billion in revenues, increase

the EBITDA to US\$ 3.4 billion – while improving the EBITDA margin to 53% - and more than double our net profit to US\$ 2.1 billion by 2014.

But our 2014 vision of leadership goes beyond the creation of shareholder value. It creates value for all stakeholders of our business. We want our customers to be connected to 'A wonderful world'; our employees should see us as the employer of choice for industry talent; the community must know that we are an active member on all fronts; our shareholders must be confident that we are committed to transparency, good governance, and maximization of value and our remaining partners must see us as a successful driver of value-accretive collaborations.

Finally, I would like to thank all our stakeholders for their continuous support over the past years, and I am sure that the Zain Group will continue to provide the reasons for your backing in the years to come.

## LOCATIONS AND SUBSIDIARIES

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