Qtel Group 1H 2011 Results Call
15 August 2011

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Operator

Thank you for standing by and welcome to the First Half 2011 Qtel Group Results call. At this time participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time, if you wish to ask a question, you'll need to press *1 on your telephone. I must advise you that this conference is being recorded today, Monday, 15 August 2011. I would now like to hand the conference over to your first speaker today, Carson Wolfer. Please go ahead, sir.

Carson Wolfer – *Qtel Group Investor Relations*

Thanks, operator. Hello and welcome. My name is Carson Wolfer and as part of the Qtel Investor Relations team, thank you for joining us for today's call to discuss Qtel's 2011 first half financial results. As part of today's discussion I am pleased to introduced Dr. Nasser Marafih, the Chief Executive Officer of the Qtel Group, Mr. Ajay Bahri, Chief Financial Officer for the Qtel Group, and Mr. Jeremy Sell, the Chief Strategy Officer for the Qtel Group. We will first open with an overview of the Group's results followed by a question and answer session.

Before we begin, a few necessary disclaimer points, if you refer to slide number one. In the course of today's discussion we may make some forward-looking statements. These will be based on the information available to us as of today and so you should not assume that in the future we will continue to hold these views. As such we do not commit to notify you if our views change. We therefore you to our public filings for some factors that may cause forward-looking statements to differ from actual future events or results.

So, to begin I will now hand over to Dr. Nasser.

Dr. Nasser Marafih - *Qtel Group Chief Executive Officer*

Thank you, Carson, and welcome to all of those on the call. Let's begin by turning to slide number three. First, we have seen solid and consistent financial results. When comparing year on year, we have delivered increases in revenues of 17%, EBITDA of 15% and normalised net profits attributable to Qtel shareholders of 17%. Ajay later will take us into more detail about these financial results. Secondly, the strong results are in both developing and developed markets. Revenue momentum continued in Qatar driven by increased voice usage and broadband subscribers. We saw also impressive results from the Wataniya Group portfolio with Kuwait and Algeria delivering particularly strong growth.

In Iraq and Indonesia we were able to maintain the solid mobile revenue growth we have seen in the past and although at Qtel we remain in some very highly competitive markets, in Oman we have seen the positive impact of the fixed

business now being realised, which of course we expect to have good impact in the future. Finally we continue to focus on two main areas which are broadband and data which will be critical for the coming months and years and also cost-efficiency and also focussing on development opportunities that fit within our stated strategy. Jeremy will get into more specifics, in both of these areas and the strategy, also, that we are focussing in the coming years. I will now hand over to Ajay, our Qtel CFO, to take you through the financial results first.
In terms of capital expenditure, our investment programme remains on track. From a capital intensity prospective again, we are seeing the impact of a growing top line coupled with a prudent capital investment programme. Next slide, please.

As far as the Group's debt profile is concerned, you can see that total debt contains the bonds issued in Q4 2010, and we talked about that earlier in the last call. The continuing split between long term and short term maturing debt is a reflection of the success we have had in re-profiling our debt, and we now have no imminent refinancing needs. If you look at where this debt is held again, Qatar continues to hold the majority of the Group debt. That includes the GMTN programme, the bonds, with Indonesia holding approximately 22%. The balance remains split primarily amongst Algeria and Oman. Next slide please.

As previously mentioned, when we look at the Group's debt maturity profile, our near term needs have been successfully addressed. Our GMTN issue in Q4 extended this further, with our medium term requirements also being accounted before. In other words, we do not have any requirements for additional financing at this stage. Next slide, please.

This slide shows you the total and proportionate customers. We again saw good growth driven primarily by Indonesia and Iraq, but also solid growth in Kuwait, Tunisia and Palestine, when comparing year-on-year. Next slide, please.

In this chart you can see a recap of our financial performance for Q1 2011. As I mentioned at the start of today's call, Q1 results has built on our 2010 performance, with solid financial results supported by balanced operations performance across the group. In summary, we continue to believe we have the right strategies that have given us a solid foundation to grow the company. Next slide, please.

Finally, I wanted to outline our 2011 Group level guidance. Solid top line performance for 2011 will increase revenue and EBITDA between 8% and 13%. Considering the impact that we have discussed before, our investments in our Group markets continues, but at a level similar to 2010, at QAR 7.3 – 8.0 billion. All in all, a positive outlook for the Qtel group in 2011. Please turn to slide number 13.

Ajay Bahri – *Qtel Group Chief Financial Officer*

Thank you, Dr. Nasser, and welcome to everyone on the call. Let's immediately move on to the next slide where the financial performance of the Group is shown. We continue to see very good performance, as mentioned by Dr. Nasser. Revenue grew 17% over last year, reaching QAR15.4 billion. EBITDA also increased 15% over the same period last year, increasing to QAR7.2 billion. The EBITDA margin over this period has remained relatively steady at 47%.

The normalised net profit attributable to shareholders increased year on year by 18% to QAR673 million… sorry, QAR1,436 million is the total net profit for the year. I'll get into more detail of the Group's debt profile but let's look at the net debt and net debt to EBITDA ratios. Net debt of QAR24.7 billion and the gearing has come down to 1.79 as a result of increasing EBITDA.

This next slide shows you the free cash flow growth, which has continued to improve year on year, as you can see. In terms of the capex expenditure, the investment programme is more or less on track. The first half results are currently trending below our outlook, which is more a reflection of the project timing and associated commitment and not a change in our overall programme.

The continuing split between the long-term and short-term maturity debt profile is a reflection of the success we've had in the re-profiling of our debt and we have no imminent re-financing needs. If you look at where this debt is held, Qatar continues to hold the majority of the debt, which includes the international bonds that we've issued and second Indonesia with approximately 20% of the debt. The rest of the debt is split primarily amongst Algeria and Oman.

This slide shows you the debt profile which is similar to what you've seen in the last quarter. Not much change here. The medium-term requirements, as you can see, in 2012 we have a refinancing need in August, which is covered by the cash we have on hand, so no mid-term financing needs for the company at all.

The next slide shows you the total customers of the Group. Healthy growth was seen primarily from Indonesia with also solid growth coming from Kuwait, Tunisia and Palestine when compared to last year.

This slide basically is our overall summary and recap of the financial performance. Dr. Nasser mentioned at the start of today's call H1 results have built on a positive start to the Q1 and solid and consistent financial results are supported by strong performance across developed and developing markets. In summary, we continue to believe we have the right strategies and foundation in place to continue to grow the company.

I will now ask you to turn to slide 12 and will hand over to Jeremy for the Qtel Group strategy.

Jeremy Sell – *Qtel Group Chief Strategy Officer*

Thanks, Ajay. As in previous presentations, I just have the one slide to present and I make no apologies for really presenting you our strategy as we did last quarter and previous quarters and throughout 2010. We basically are focussing on a value strategy and a growth strategy and the way we do that is looking to drive increasing synergies and value across the Group. We talked last time about frame agreements and shared services and we've consistently, as our management and expertise becomes more sophisticated, started to look at new synergistic areas. For example, we have a unified regulatory approach, we are beginning to unify some product development and partnership approaches and we are beginning to unify the way we look at data and its profitability across our operations and as we roll out the skills and developments through our businesses, so we are beginning to see profitability increase across the board.

At the same time we're looking at our capital structure and always seeking to optimise that. We've recently completed two successful IPOs and we've got a third one ongoing in Asiacell at the moment, which I'll talk about specifically in a while. We've got a very comfortable debt profile, which we will continue to monitor on a quarterly basis and report on. We're aware of the concerns you've expressed in the past about liquidity and if and when we need to raise more capital, we'll certainly bear those in mind. We're looking at adjacent growth in B2B and ICT in line with our strategy of expanding in three geographies and in three industries. We've seen increases in our penetration into these markets in Qatar and Oman and Indonesia where we have existing and developing new fixed networks. We're investigating fibre and cable and international capacity and seeing if those are things we should be rolling out in markets where we're mobile only and we will have more to say on that in the future.

Referring now to Dr. Nasser's points about being broadband-ready, we've made an imperative for each of our managements in every operating company to be broadband-ready whether or not they have licenses at the moment. And that's not just broadband-ready on mobile. Where there is a parallel fixed network, how can we become a converged communications company? We believe there's significant growth left in broadband in our market and we take our benchmarks from Europe and the States where we've seen exponential explosions of data. We see no reason why in time we shouldn't experience the same of that in all our markets, albeit at different times, taking into account their maturity and infrastructure. However, we are paying particular attention to making sure that we exploit data profitably. We are not in the business of giving it away and we are nervous of the mistakes that others have made where they have seen huge usage growth but very modest profitability increases and that's something we monitor very carefully.

We still see that there is a tremendous amount of growth in our markets, depending on the maturity of those markets and the infrastructure available and then, of course, the licenses. All our networks will be broadband-ready and we will be approaching data with a profitability mindset rather than just providing all you can eat packages to everyone. We've seen that be very unsuccessful in other areas and we have the benefit of learning from the mistakes of others. So, that's something we'll be monitoring.

Finally, we'll be looking, as always, to expand our operation, either by buying more of what we like in operations where we have an existing investment or by buying into operations in the three geographies and the three industries that we've always said. There will be no movement away from the strict financial controls we put on acquisitions and if that means that we don't buy anything in the near future, so be it.

Let me now turn to two specific activities that are going on, first of all, in Tunisia. We all held our breath after the January revolution but it appears that stability is returning to the country and we're enjoying excellent relations with the new administration. We're making good progress in the emerging post-revolution regulatory environment and we're hopeful that we will shortly receive a 3G license on terms similar to those given by the previous administration to our competitors. So, tentatively we are optimistic as to the future of that market and for the future of broadband within it.

On Iraq we are working very closely with our partners to help the government understand the challenges faced by their requiring each operator to IPO by the end of this month and how hard that will be, not just for the market's ability to absorb that amount of stock but for the fact that it hasn't really been done at all on the scale that we're talking about in Iraq. That will be ongoing and we'd expect to have something more to say about that in the future. There have also been statements in the media about the government seeking to accelerate the repayment or the payments of the second half of the 2G license. You'll remember that half the fee was deferred into five equal payments and that is currently the assumption that we're working under, seeing as we had that mandated to us by the CMC regulatory authorities. Again, as that situation becomes clearer, we'll have more to say on it.

As always, we commit to providing you updates if and when new opportunities reach a point of certainty in their development and at the moment that's all we have to say on them. With that I'll hand you back to Ajay.

Ajay Bahri

Thanks, Jeremy. Next we would like to provide you with an overview of the operation results of our key markets. As a reminder I would again refer you to the section of the presentation starting on slide 22 and the breakdown by operation file. Both have additional detail on each of our operating companies, including sequential quarter results. For Qtel Qatar I'd like to highlight that previous period numbers have been updated for comparability purposes. There were some adjustments we've done on grossing up on revenue in Q1.

We have seen positive performance throughout the first half in Qtel Qatar. Revenue momentum continued from Q1, driven principally by higher triple play, data usage and leased line revenue. The FTTH project, which we've talked about, the rollout for that continues more or less in line with our plan, so long-term we see a lot of value coming from this project. Successful promotions and ongoing innovation in the product suite have driven the market share, becoming more stable and supporting our customer retention efforts. Although the EBITDA growth was principally driven by our focus on cost, for the development in Qtel Qatar we have seen the ongoing development of our products and services with a successful pilot of the Mobile Money project and the corporate partnership with the Qatar Exchange for the provision of mobile financial data.

Something on movements between Q1 and Q2. The revenue was up primarily as a result of more mobile revenue in the postpaid section, triple play and leased line, similar to the overall half-year result. The EBITDA is reasonably stable, mostly as a result of slightly higher cost of sales offset by capex efficiencies. The ARPU is up compared to the previous quarter as a result of higher post-paid ARPU as well as the seasonality which it gets from the higher roaming revenue during the holiday season.

Moving on to Asiacell, another strong performance in Iraq, both revenue and EBITDA performance against increased competitive dynamics was very strong. Market share has been maintained with Asiacell building on the success of Q1 with a strong level of net additions. As Jeremy mentioned, we continue to engage with the relevant authorities as to the IPO license requirement as well as the license payment and we will update you in due course as this develops further. As far as Q1 to Q2 is concerned, the revenue was up 6%.

There has been declining EBITDA margin, primarily because of a few items. As the company has been expanding its networks, the number of sites has gone up. As a result of that, the site-related costs have gone up as well, which includes rent, utilities and fuel. The revenue offset will come in due course as the sites get filled up and more revenue comes in. Now, there are two one-off items in Q2, staff salary adjustment and bonus and also one-off marketing and consulting spend. Now, once we normalise the EBITDA for these one-off items, it's in line with the previous quarter.

Moving on to the next slide, Indonesia. Indosat has held its results conference call earlier today. The presentation is available on their website. I won't cover Indosat on a high level basis because a lot of details were discussed in the call itself. The key team for Q1 continues with Indosat succeeding in meeting the competitive challenges and increasing cellular revenue and subscriber growth. The Voluntary Separation Scheme, a key tenet of the business transformation programme, has now been more or less completed and this carries a number of one-off expenses which has impacted the EBITDA and EBITDA margin in the first half. On a normalised basis the EBITDA margin is stable, if we exclude the VSS costs. Net profit was again positively influenced by continuing appreciation of the Indonesian Rupiah as well as a decrease in interest costs as the company has been repaying its debt. Indosat continues to consolidate its capital structure with significant deleveraging of its balance sheet.

Looking at Q1 to Q2, revenue was up about 10% in dollar terms, about 6% in local currency with a 7.3% growth in cellular revenue. So, the turnaround in growth in cellular revenue has been very impressive. Like I mentioned, the EBITDA margin was impacted by VSS but if we exclude the VSS, the EBITDA margin Q1 to Q2 was stable.

Moving on to the next slide, Nawras in Oman, Nawras announced its H1 results on 27 July. Here too we have updated the previous year's numbers to be comparable with the grossing up of revenue which we've done in Q1. Revenue growth in Q2 is driven principally by mobile postpaid, fixed services and services from the International Gateway. EBITDA and EBITDA margin were impacted as a result of increased cost relating to the fixed line rollout, which we've referred to before, as well as the government employment initiatives, which we also talked about in the last quarter. Also, the company has expanded, in addition to the fixed network, the mobile network as well, so there have been some initial costs related to that as well. Subscriber numbers are down. This is as a result of both the intense competitive dynamics in the prepaid segment which is a follow-up from the Q1 as well as a reclassification of active customers in line with the regulatory changes. The period of subscriber inactivity has now been reduced from 12 to six months, alongside with other measures that we have referred to on the previous call.

Operational focus remains on dynamic marketing initiatives coupled with cost efficiency programmes. The ongoing development of the broadband business across all segments and the implementation of the sea cable scheduled for the end of the year. Q1 to Q2 ARPU has gone up primarily because of high new sales and promotions as well as higher rolling revenue. EBITDA has been down Q1 to Q2. A couple of reasons for that. There has been a marketing focus right now to regain some of the market share, so marketing spend has been increasing. We did refer to the government employment initiative where most staff has been employed as part of that. That's something which will continue cost-wise whereas the marketing spend I would classify more partially as one-off. There has been an adjustment in Q2 related to certain loyalty programme-related spend which was actually meant for Q1. So, there is a slight movement between Q1 and Q2 in terms of expenses. The normalised EBITDA is relatively in line with the previous quarter as well.

Now, moving on to the next slide, Kuwait's performance has been quite strong. Revenue growth continues in Kuwait on both a quarterly and year-to-date basis, driven by a successful focus on higher value market segments. Customer growth continued in Q2 and was principally in the prepaid segment. There was promotion activity in smartphone and data. EBITDA also grew very well due to increased revenue and a focus on operational efficiency. In comparing H1 of 2010 it had some one-off expenses related to networks and that has impacted on the performance of H1. Q1 to Q2 subscribers are up. Revenue is slightly down because in Q1, if you remember, we had done a lot of handset sales which has positively impacted revenues of Q1. EBITDA margins have been stable over this period. For net profit I'd like to just remind you that the minorities of NMTC had made a huge profit because of the Tunisiana acquisition, which we talked about in Q1. Excluding that, the profits are on a normalised level.

Moving on to the next slide, Nedjma in Algeria had a strong start to the year and continued its excellent performance, both in terms of revenue and EBITDA with a segmented approach to its customers. Throughout the first half Nedjma has focussed on different segments and has driven products targeted to different segments as a result. The value of the base and ARPU has both increased significantly. To support the ongoing customer acquisition initiative, the rollout of the network has also continued during the period. Net profit was also positively impacted by FX gains as the currency appreciated against the US dollar. Q1 to Q2 the ARPU is up, so is the revenue. It's a result of increased usage and attractive bundled offers as promotions. The EBITDA margin has improved because of the operational efficiency coming from scale and net profit also increased because of increased revenue as well as partially because of the effect of the lower FX gain in this quarter.

Moving on, finally, to Tunisiana, there I'd like to remind you that previously numbers were based on a 50% consolidation level whereas 2011 we consolidated Tunisiana 100% as a result of an acquisition in January of a stake of up to 75%. In the first half Tunisia showed robust revenue and EBITDA increase. Revenue growth has come to a large extent from international traffic growth which is due to the developments in the region. As things settle down, we do expect the international traffic growth to also decrease as a result of that. The market position of the company is quite strong. Net profit also was positively impacted due to the retirement of its debt. Tunisiana has maintained its market share position in the market. Q1 to Q2 there were positive ARPU and revenue trends and Q1 was also impacted by free giveaways which we referred to in Q1. I'd like to highlight that some of the positives we see in Q2 are relatively temporary because of the situation in the region. As we move into Q3 the impact on roaming will be seen as the tourist inflow is impacted by that, so I just want to caution you. Good Q2 but we are cautious about how Q3 will be.

With that we've come to the end of the presentation. I'd like to hand it back to Carson now.

Questions and Answers

Carson Wolfer

Thanks, Ajay. Operator, we can now move to the question and answer session. Can you please explain to the participants how to ask questions?

Operator

Of course, thank you. We will now begin the question and answer session. If you wish to ask a question, please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key. Once again, that's *1 to ask a question.

Your first question comes from Christian Kern from JP Morgan. Please ask your question.

Christian Kern – *JP Morgan*

Hi, gentlemen, good afternoon, it's Christian Kern from JP Morgan. Two questions, if I may. The first one, can you elaborate a little bit about the QNBN situation, the status there with the negotiation with the government, with the regulator and your local competitor, referring to maybe transfer values, what you get for your bucks, access prices and so on, any developments, that would be much appreciated.

The second one is a much simpler question with regards to depreciation and amortisation that has moved up a little bit this quarter. Is there any particular reason for it or is that just due to the increased network rollout in your respective subsidiaries? Thank you so much..

Ajay Bahri

The QNBN, of course recently, as you know, the CEO of the QNBN has been appointed and we are actively engaging with them and good discussions are ongoing with them but as things develop with them, I think we will be able to share more detail but at this stage what I can say is that healthy dialogue and discussions are ongoing with them and understanding what their requirements are but no final decisions have been taken at this stage. But, Dr. Nasser, you'd like to add something to that?

Dr. Nasser Marafih

Again, I think what Ajay has said is right. I think they have just established the company and still we are discussing with them the scope of what this company is going to do. As you are aware, Qtel of course has made a huge investment in the fibre. I think the discussion that is taking place with the government is about mostly the green area: you know, the area which is in the rollout areas and how that is going to be invested, so that's the focus area, where actually we believe government involvement should be healthy and needed but that discussion has just started. So, again, once we actually have something substantial to report, we will, of course, report it back but the discussion just started on that front. On the depreciation and amortisation, Ajay?

Ajay Bahri

On the depreciation and amortisation, quarter on quarter we've seen some increase. Part of this, of course, like you said, is because of the increased capex spend. The other part is because of the amortisation of the intangibles in Wataniya. You recall that we'd done the acquisition of Tunisiana in Q1 and the full impact of the amortisation of intangibles is seen in Q2 over there.

Christian Kern – *JP Morgan*

And, Ajay, these are going to be one-offs or is there anything going forward?

Ajay Bahri

No, these are intangibles which we continue during their useful period life, yes. And there are various aspects depending on the life of the intangible but they're normally there for a few years, definitely. Things like license, of course, have a longer period. But the complete PP exercise has still not been completed. What normally happens is we get 12 months time from the accounting standards to complete a formal PP exercise, which we hope will be done in the next couple of quarters, and then we'll have finally the agreed level of intangibles and the useful life. So, we have made a provision based on our estimate but this is likely to be finalised with the auditors in the coming quarters.

Christian Kern – *JP Morgan*

And has there not been shortening of any useful life periods also?

Ajay Bahri

No, nothing like that.

Christian Kern – *JP Morgan*

And, Dr. Nasser, on the QNBN, may I ask in terms of what you are going to contribute? Is there any idea already in terms of what's the risk on your side in terms of controlling the costs of that entity? Do you see any downside risk of this entire initiative and upside risk for the company?

Dr. Nasser Marafih

No, I think, as I said, you know, it's something that the government is conscious the importance of broadband for the country which, of course, we share but also we realise, of course, that we have explained from the beginning, broadband is critical for the company and for the growth of the company. As you're aware also, the government is asking the operator even to invest in the QNBN company, which is something that we are, by the way, assessing, whether we would like to do that or not. But all of that is under discussion and we have still just started this dialogue. But this is going to take some time, until we finalised discussion with the government. But we will update you, you know, once we have the discussion with them and, of course, then the result of those discussions, we will be disclosing that to the market when the time comes.

Christian Kern – *JP Morgan*

Thank you so much.

Operator

Your next question comes from Martin Mabbutt from Nomura. Please ask your question.

Martin Mabbutt – *Nomura*

Oh, good afternoon. A few questions, if I may. The first was in Saudi, I wondered if you could perhaps update on, you know, the intention there. Obviously it's still a difficult market and you reported quite a sizeable increase in losses in Q2. That's the first question. The second was on Algeria. Obviously financially that was very good performance but subscriber growth has now been sort of flat and slightly negative for the second quarter and I wondered if you could perhaps indicate, you know, why that was, even if the market's growing and you're just holding your quality of subscribers the same or slightly improving as opposed to actually growing your share. And the third was I just wondered what your thoughts about revisiting guidance. Obviously you'd had a very good Q1 and Q2 performance. It's looking now as if you're likely to be ahead of guidance. Maybe you could say something about that. Thank you.

Ajay Bahri

Okay. I'll talk about the performance and then maybe Jeremy can pick up on the strategy. There has been a dip in the performance of Bravo in Q2, primarily driven by some competition over there and the revenues are down. That's the main reason over there but, having said that, that's only one quarter and we are looking at ways of recovering that long-term. Jeremy wants to add something.

Jeremy Sell

Yes, thanks. It's worth remembering that Bravo, which is the Saudi business, was acquired when we bought of portfolio of Wataniya properties. So, we spent the first 18 months stabilising it and we have not put any new cash into it for some time. It survived and it's cash flow neutral and more or less EBITDA neutral. So, let's not overestimate the effect of this business. Secondly, strategically we're keeping it as an option on Saudi. We're very interested in getting into the Saudi market in some way. We monitor all opportunities very closely there and while Bravo is something of a small asset in a technology that we're uncertain of, we're happy to keep it there while we assess the Saudi option. So, it's really the reason we're still there and it costs us nothing. So, that's pretty much it.

Martin Mabbutt – *Nomura*

Thanks very much.

Ajay Bahri

I'll come back to the Algeria question. The number of subscribers is fairly constant there. Part of the reason for that is that there's some cleanup of database primarily done in Q1 but spilling over into Q2 as well and there have been some registration requirements because of which some of the customers without IDs have to be taken off the network. So, net net one doesn't see an increase in customers but the quality of customer within that number is improving, which is expected, and the revenues are much higher than last year. So, you're right, the quality of the customer base has changed although the total number itself has not.

On your next question on the guidance, we do acknowledge that the performance is ahead of guidance, what we'd given, and guidance of course was based on certain assumptions. We are not done with the year as yet and we don't have a policy of reviewing the guidance during the year and giving revised guidance, however I think the actual performance vis-à-vis the guidance speaks for itself.

Martin Mabbutt – *Nomura*

Okay, that's great. Thanks very much.

Operator

Your next question comes from Kunal Bajaj from HSBC. Please ask your question.

Kunal Bajaj – *HSBC*

Yes, hi, thank you for the opportunity. I just want to check, ARPUs in some of the key markets, like postpaid ARPU in Qatar and prepaid ARPU in Algeria, they went up significantly, so could you let us know whether it's due to the pricing or the usage and how do you look at the trend in each of these markets going forward, whether we can take this as a sustainable number or probably these are not. And, secondly, in Oman how much was the impact on the margins due to the rising staff costs? I mean, were there any hikes associated with inflation or a special one-off payment to the locals? So, can you just quantify that number for us? Thank you.

Ajay Bahri

Okay, fair enough, I'll give you exactly what I can share on Oman but, as far as the ARPUs are concerned, it's a mixed bag over there. If you look at Qatar, for example, a lot of countries in the region, you see ARPU increase which is linked to the higher roaming revenues during this period which is very often offset by degrees sometimes in promotional activities which are done. Algeria, on the other hand, as I was explaining in the previous question as well, is improving the customer base itself. As we are churning out the low usage customers or inactive customers and replacing them with more active and high usage customers, the ARPU increases in Algeria, for example, are more sustainable. Clearly it's a mixed bag. For each operation there's a different story. Algeria, of course, is more sustainable compared to some of the other increases.

As far as the staff costs are concerned in Oman, it was not because of a one-off bonus given to employees. As it's quite known in Oman, there's a requirement to increase Omanization and approximately 150 extra staff were to be added in Oman by Nawras in their operations, so that's what… It's a permanent increase; however, the company is very closely focussed on cost optimisation, not just Oman, in fact, the whole Group, which Jeremy mentioned earlier. It's an area of focus for the Group and Nawras in Oman is launching its cost optimisation initiative. So, we are quite hopeful that any increase in cost would eventually be offset… Increasing costs on the staff would be offset by the optimisation initiatives that the company is embarking on going forward.

Kunal Bajaj – *HSBC*

Thank you. Just a follow-up on Qatari ARPUs. We heard that the international call operation has gone down to around QAR 0.35 now. So, do you see these numbers as sustainable or do you think that pricing is bottoming out in Qatar on international calls?

Ajay Bahri

Some of these are promotions during Ramadan and of course during the promotional activity you would see an impact on ARPUs but on the international side very often the decrease in pricing is offset by increased usage as well. It has more impact on gross margins. So, let's not look at the promotions we are doing during Ramadan as a permanent decrease in price as these are promotional activities right now.

Kunal Bajaj – *HSBC*

Thank you.

Operator

Your next question comes from Maddy Singh from Morgan Stanley. Please ask your question.

Maddy Singh – *Morgan Stanley*

Yes, hi, I have a few questions. Firstly, on Tunisia, can you please provide what would be the comparable revenue growth in the second quarter? This is in context with, first of all, your full consolidation and, second, also the… you know, not including the taxes in the revenues during the second quarter of 2011. The second question is, is there any indication of what could be the cost of the 3G license you are expecting in Tunisia? If you don't have an indication, can you help? What was the price paid by your competition for the 3G license? And the third question is on Kuwait. The revenue growth in Kuwait has really surprised, again on the positive side. The first quarter was strong, I understand, because of the, you know, smartphone sales and, you know, higher data increases. Is the same trend continued in the second quarter as well? Thank you.

Ajay Bahri

As far as a comparability to the Tunisia number is concerned, the adjustment we did was in Q4 of last year. So, when you look at Q1 and Q2 numbers, they are already adjusted for the tax effect which you talked about.

Maddy Singh – *Morgan Stanley*

But it was… The adjustment is in the second quarter revenues. So, if you take out the taxes in the second quarter 2010 as well, then what would be the revenue growth?

Ajay Bahri

So, you're saying if we… Okay, in terms of comparability with last year?

Maddy Singh – *Morgan Stanley*

Yes.

Ajay Bahri

Okay, I'll come back to you with the numbers on that, no problem.

Maddy Singh – *Morgan Stanley*

Okay. All right. Thank you.

Ajay Bahri

On the 3G license, maybe Jeremy can…

Jeremy Sell

Yes. This is clearly something that is active and ongoing and it'll be quite wrong to give any guidance out on what the price is likely to be. Obviously we'd like it to be as cheap as possible. In terms of what others have paid, I'm afraid you'll have to ask them for that. To my knowledge I don't think it was made public. We've got estimates that we think they paid but, again, it's not public and it's not something that is appropriate for us to discuss.

Maddy Singh – *Morgan Stanley*

All right. And Kuwait?

Ajay Bahri

Let me get back to you on the Tunisia question. On a normalised basis there's about a 4.8% growth in revenues and local…

Maddy Singh – *Morgan Stanley*

Sorry, the line was disturbed. I couldn't hear the number. Please repeat.

Ajay Bahri

4.8%.

Maddy Singh – *Morgan Stanley*

4.8%. Okay, thank you.

Ajay Bahri

Coming to Kuwait, Kuwait of course the trend of growth has continued and although the handset sales, which you saw in Q1 have not repeated in Q2, however the momentum which was gathered in Q1 continued in Q2 as well. Although there's a slight dip in revenue, as you can see there, overall sales have been going up. The focus has been on smartphones and data and that strategy, of course, is working well for Kuwait.

Maddy Singh – *Morgan Stanley*

So, are there no one-offs in Kuwait revenues?

Ajay Bahri

Correct, in Q2 we don't have any one-offs like handset sales or something.

Maddy Singh – *Morgan Stanley*

All right. And very quickly, in Algeria what is the registration deadline?

Ajay Bahri

There was a deadline initially given and which I think has been delayed a little bit. So, they're working with the regulators and seeing how that works out. Earlier assumptions were that this would probably be done in a very short period of time but I think they've agreed on a phased clearance of this issue.

Maddy Singh – *Morgan Stanley*

All right. Thank you. Thanks a lot.

Operator

Your next question comes from Damon Guirdham from Generation Investment Management. Please ask your question.

Damon Guirdham – *Generation Investment Management*

Hello, thank you. Can you hear me?

Ajay Bahri

Yes, we can.

Damon Guirdham – *Generation Investment Management*

Great. Thanks. I just wanted to drill a little bit more on Saudi, not because it's currently material but just because it illustrates your thinking about expansion. Jeremy said that you hadn't had to put additional cash into Bravo but I just wanted to check whether there was actually an acquisition of minority stakes within that business. I thought I remembered something relatively recently. So, that would suggest that you had made a decision to expand your holding within Bravo and, perhaps more importantly, last year there was a mobile business, a normal GSM business, for sale or a stake in one of the businesses for sale in Saudi and I'm guessing you showed discipline by not buying that stake. So, perhaps you could walk us through your thought process retrospectively there and why you chose to exercise discipline in not acquiring that.

Jeremy Sell

Let me take those one at a time. We have… Let me be clear. When we first acquired Wataniya, we did put some extra cash into Bravo to stabilise it and because it was in breach of Saudi capital laws. That was back, I think, in 2009. Since then we haven't put any new investment because it's a cash breakeven business or slightly positive. There is a business for sale. There's a well-publicised process ongoing for Zain Saudi and that's something that we are very actively studying and have been, you know, for some months ever since the Zain parent decided to dispose of that. At the moment we've got nothing to say on it. We watch activity in that sector quite carefully but you're quite right when you allude to us being governed by financial constraints. We will not invest where we can't see a satisfactory return, however strategic the market is, and so that's why you haven't seen us move more aggressively on that.

In terms of stepping up in Bravo, it's likely that we will. There's a process ongoing. Our partners there are keen to leave. It will be for a minimum amount and most of that is to do with streamlining operational control and governance rather than taking a bigger economic stake. So, it's not so much to increase our exposure as to make it easier to manage. There have been differences of opinion with our local partner before and we like nice clean direction from our QI investment right through to the operation. So, that's what that's about; rather than any major investment it will be a minimum number. However, that has not yet been completed.

Damon Guirdham – *Generation Investment Management*

Understood, thanks. And just a quick one on Iraq. You know, I understand everything around this IPO is very uncertain but presumably you have some contingency plans. Could we just clarify that nothing you currently envisage could result in deconsolidation from a financial perspective whereby you would no longer be able to report this as a sort of controlled entity?

Ajay Bahri

As of now we don't expect any events which would result in that, as of now, because the consolidation is based on shareholder agreements and we don't expect the IPO to make a change through that and it's driven by more how the board composition takes place. But if there is a change, of course we would be highlighting that well in time, yes.

Damon Guirdham – *Generation Investment Management*

Great. Thank you.

Operator

Your next question comes from Ranjan Sharma. Please ask your question. And Mr. Sharma is from JP Morgan.

Ranjan Sharma – *JP Morgan*

Yes, hi, it's Ranjan Sharma from JP Morgan. Thank you for the call. My question is on Asiacell. Can you please again highlight why your margin declined 4.6% quarter on quarter? I think you said there was a one-off. Can you just please state them again and can you quantify the impact? And also my second question is regarding capex. You have recorded QAR2.7 billion in the first half while the lower end of your guidance is around QAR7.3 billion. So, do you expect any revisions on capex and where do you see the investments going forward? Thank you.

Ajay Bahri

On the Asiacell side, I've given three reasons. One, of course, is the increase in costs. The company's capex programme is on track and it's added a lot of sites in the first half of the year. As a result of that, you know, maintenance of sites is reasonably expensive in Iraq compared to some of the other places in the world because of the security, the fuel, the utilities and the rent required there. So, you see some extra cost coming into the related area, which will be offset eventually as the sites get filled up with more capacity and more usage.

On the other two items there was a one-off investment on the salary side, including some bonus which was paid in Q2, which was as per budget and expected, although in the Q1 to Q2 analysis it stands out and some marketing focus, of course, has been of the company to increase its market share. So, there were some specific initiatives done on the expense side on the marketing and consulting side which I would classify at least half of them would be one-off. So, there are some one-off items. The last two I would classify as one-offs but the expenses on the network side, of course, are continuous expenses and the impact of that would, I think, be mitigated over the next few quarters but the second two items of course would not be repeated in Q3.

Ranjan Sharma – *JP Morgan*

Okay. And on the capex, please.

Ajay Bahri

On the capex side, of course we are trending below where we'd given overall guidance and we do see a catch-up coming in Q4. So, although we… Since we've not really changed our capex plan as such, I wouldn't say that we would be spending… we plan to spend less, although there is sometimes some delay with some projects and that can impact the actual spend. But we'll have to see how the second half progresses in terms of catch-up, yes.

Ranjan Sharma – *JP Morgan*

Can you please highlight where do you see most of the capex in the second half?

Ajay Bahri

The big operations which take capex are Indonesia and Iraq and Algeria. That's where we see a lot of growth coming as well. We have some capex in Qatar as well. These four operations would comprise most of the capex.

Ranjan Sharma – *JP Morgan*

Thank you.

Operator

Once again, if you wish to ask a question, please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the # key.

Your next question comes from Karthik Sankaran from Blackrock. Please ask your question.

Karthik Sankaran – *Blackrock*

Hi, thank you for hosting this call. I just have a couple of follow-up questions. The first is in terms of Tunisia. You mention the beneficial impact of higher roaming revenues. Could you quantify that or give us a sense of, if you look at the revenue growth, either Q-on-Q or year-on-year, you know, roughly what proportion would come from a higher than normal level of roaming revenues. And then, secondly, in terms of Kuwait, could you discuss your capex there? You know, you have seen a big increase in data traffic, I understand, and, you know, where do you see capex levels in Kuwait going forward, taking into account your higher revenue share and your growth in data over time?

Ajay Bahri

As far as Tunisia is concerned, what I commented was on higher international usage was outgoing calls from within the country and not the roaming side and that was more a result of the situation in the country. The growth year-on-year also was a question earlier. It's about 4.85%. The number of customers has slightly increased but I think one could say half the growth is coming from one-off international revenue. To Kuwait, of course as the company has been following its strategy of growth and data, it has been investing in the network as well. So, that is something which is very closely monitored in terms of quality… service and quality of network. So, in essence it's commensurate with the expectation of growth there.

Karthik Sankaran – *Blackrock*

And just very quickly in terms of Tunisia, I was just wondering what drove the substantial growth in subscribers quarter-on-quarter.

Ajay Bahri

What has happened is, of course, the situation in the country has also given some opportunities for growth of customers and churning of customers as well as a lot of people coming into the country from neighbouring countries as well. So, those are some of the reasons why you can see an increase in customer growth as well as some of the revenue increase which as come as a result of that. And, as you can see, the trend of Tunisiana has been of a very strong brand that continues to capture market share. Despite the problems and the opportunities which it gives, it has been continuously increasing its market share in Tunisia.

Karthik Sankaran – *Blackrock*

Right. Thank you.

Operator

Your next question comes from Maddy Singh from Morgan Stanley. Please ask your question.

Maddy Singh – *Morgan Stanley*

Hi, just two follow-up questions. The first is on Iraq. Can you please quantify how much was the one-off drop in margin in Iraq? Secondly, in Tunisia, you know, you don't have a 3G license currently but you are saying that you are still increasing market share. So, you know, are people not really warming up to data opportunity or 3G, what the competition is offering in Tunisia? Thank you.

Ajay Bahri

Okay. On the Iraq side, the way I like to characterise it is that the decline that you see in the margins are primarily because of one-offs. There is a piece of the site-related expenses which is not one-off. I won't put a number to that but what I would say is that over a quarter or two you would… the impact of the sites would get evened out and the revenue starts coming in.

For Tunisiana, you're right, the competition does have 3G licenses and they're looking at 3G and the demand on that, of course we still need to see how that plays out in the market. Jeremy will add something to that.

Jeremy Sell

Yes. Thanks, Ajay. It's an interesting situation. We've done very well on data, probably better than others, even without a 3G license. We have, of course, got an excellent EDGE network. Orange has had issues rolling out. It has not been as aggressive as it hoped and has certainly not taken share from us. So, they have got some 3G rolled out but it's very patchy and it offers quite a poor experience. Tunisie Télécom has got even less rolled out and so strangely, despite them having the licenses, we're probably known as the best data network. This is very good news for when we do, hopefully, acquire a 3G network. We will, I think, consolidate our lead in the data market and be known as the broadband company. So, that's where we're going and it speaks volumes for the quality of our 2G… 2.5G network, that we're able to compete effectively with people with 3G licenses.

Maddy Singh – *Morgan Stanley*

So, I mean, the… Let's push it a bit further. What's the earliest you expect the 3G license will be… you will get…?

Jeremy Sell

As soon as possible.

Maddy Singh – *Morgan Stanley*

Okay. Should we expect something in the third quarter?

Jeremy Sell

Well, yes, as soon as possible. I mean, we're pushing as hard as we can. I mean, it's a post-revolutionary government. They're a little bit… you know, making up their minds about how quickly to move but we see no impediment to getting a license ultimately.

Maddy Singh – *Morgan Stanley*

And any possibility of a 3G license in Algeria?

Jeremy Sell

Yes. I mean, that will be nice in the future. Again, their process hasn't started but there are discussions at government level. They are very conscious about trying to bring the market there into line with Europe, which they look at as a benchmark, and they will eventually have a 3G process but the terms of that have yet to be determined. We expect that there'll be some sort of consultations done this year with the government and they'll be moving to keep up with the neighbours, you know, because there's 3G in Tunisia and Morocco and they won't want to be left behind.

Maddy Singh – *Morgan Stanley*

Yes. Okay. Thank you.

Operator

There are no further questions. Please continue.

Carson Wolfer

Thanks, Operator, and thank you all for joining today's call. Please refer to the Qtel Investor Relations website for additional updates or feel free to contact the IR team if you need further information. We look forward to your future participation in our nine-month 2011 update, the date for which we will announce in September or October. Meanwhile, thank you again for your interest in Qtel and have a good day.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.