Transcription for OOREDOO

July 30th 2018

Corporate Participants

Andreas Goldau
Ooredoo – Investor Relations

Sara Al-Sayed
Ooredoo – Investor Relations

Waleed Al-Sayed
Ooredoo – Deputy CEO, Ooredoo Group and CEO, Ooredoo Qatar

Ajay Bahri
Ooredoo – Chief Financial Officer

Mansoor Al-Khater
Ooredoo – Chief Mergers & Acquisitions Officer

Hans Kuropatwa
Ooredoo – Head of M&A

Presentation

Operator
Ladies and gentlemen, welcome to Ooredoo Group Second Quarter 2018 Financial Results Investor conference call and webcast. I now hand over to Mr Andreas Goldau. Sir, please go ahead.

Andreas Goldau
[Arabic greeting]

Hello and welcome to Ooredoo's financial results call.

[Introductions]

We start with an overview of the group results followed by the Q&A session. The presentation is available on our website at www.ooredoo.com as well as on the webcast.

[Disclaimer]

To begin, I will now hand over to Waleed.

Waleed Al-Sayed
Thank you, Andreas. Ladies and gentlemen, thank you for joining us on today's call. We have had a difficult first half of the year with a significant decline in our top line and bottom line. Gross revenue was QAR 15.3 billion and EBITDA margin stood at 41%. Our financial results came at a time when the telecom sector is undergoing significant structural changes combined with unfavourable foreign exchange rates, as well as challenging market conditions.

Specifically, for Ooredoo, three main factors impacted our group results. The new SIM regulation in Indonesia negatively impacted our second biggest revenue contributor, Indosat. A challenging market environment in Algeria and the devaluation of the local currency and FX losses in Myanmar. The half-year results are in line with the trend we saw last quarter, which will likely to continue into the third quarter.

While we have taken strict measures operationally and financially, the benefits of which are expected to kick in by 2019, it is hard to recover from the losses incurred in the half year. For this reason, we have decided to update our guidance for 2018.

For the full year guidance, we have reduced revenue loss to a range of -3.5% to -6.5%, EBITDA loss to a range of -5.5 to -8.5%, and CapEx was also reduced to a range of 4.5 billion to 5.5 billion. Beyond the difficulties we are seeing with some of our OpCos which are operating in a challenging market environment, we are also impacted by the rapidly changing consumer landscape and structural changes in the telecom industry.

Continuing with our efficiency programme is critical to sustaining our profitability. However, we must make the right investments in our businesses and networks to position the company for a smart future. For this reason, we have updated our strategy, taking into account all of the factors impacting our businesses and our industry, as well as the needs of our customers. I am confident we are well positioned to capture the growth in the new market environment, and we will cover strategy updates in further detail in this presentation.

Operationally, I am pleased to announce that Ooredoo Group is the first operator in the world to launch live 5G, in Qatar during the first half of 2018. The new technology brings with it a raft of new possibilities that were simply not possible before 5G and will enable businesses and consumers to unlock more growth. Data continues to be central to our business, we have seen a significant increase in demand from our consumers and enterprise customers, with data revenue now accounting for 45% of our total group revenue. To sustain this growth, we will continue making the right investments in our network, upgrading to 4G and 5G in our markets of operations. Ookla Speedtest Intelligence recognises Ooredoo Myanmar as the fastest 3G/4G network in Myanmar. Ooredoo Oman and Ooredoo Algeria were recognised as the fastest mobile network in the country as well. Of course, in our home market, we also have the fastest and the most reliable network.

I hand over now to Ajay for more details.

Ajay Bahri
Let's move to slide number five for more information about our group revenue and EBITDA. As mentioned, similar to what we saw in quarter one 2018, at half year 2018, group revenue was impacted by a weak performance in Indonesia, where the regulation on SIM card registering and voice/ SMS decline continue to impact our top line performance. As mentioned in the last call, in Indonesia we are balancing our strategy of push sales activity and pull distribution strategy. We expect to see the positive impact of this change coming into effect later this year.

Looking at our other OpCos, we have seen revenue increases in Iraq, Oman, Kuwait, Tunisia, and Myanmar. We defended our market leadership position in our domestic market as well as in Tunisia and Iraq. Our focus on efficiencies resulted in sequential improvement of our margins. The margins in Q2 have reached 42%.

Moving onto the next slide, slide number six, as discussed, the decrease in group net profit was mainly caused by the market adjustment in Indonesia and the challenging market conditions in Algeria, as well as the foreign exchange losses in Myanmar. The foreign exchange losses were offset by other one-off gains from the sale of our Rocket JV investment, as well as certain fair value gains recorded for Indosat, Ooredoo's investments. As such, the reported net profit reflects operational profit trends.

Moving onto the next slide, let's take a look at CapEx and free cash flow. As we position the company to capture future growth, we invested in upgrade of our network to 4G in key markets. The increase of 9% in CapEx is a result of timing difference in rollout of projects. Impacted by lower EBITDA and the increase in CapEx, free cash flow declined 18% to QAR 3.1 billion.

Next slide please. Group customer numbers decreased to 130 million, negatively impacted by the SIM card registration requirements by the Indonesia regulator. We recorded some growth in Iraq, Kuwait, Tunisia, and Myanmar though.

Moving onto the next slide, net debt. We maintained a well-balanced debt profile. Net debt continued to decline down 12% at H1 2018. Our net debt to EBITDA ratio is at 1.8 times, which is in line with our long-term guidance of between 1.5 and 2.5 times. Group debt remains mainly at a corporate level largely in Qatar, followed by Indonesia and then a small percentage allocated to the other OpCos. As a reminder, debt at the OpCo level is kept primarily in local currency except Myanmar and Iraq due to non-availability of local currency debt. You might have seen in the press that we successfully concluded a $200 million loan over a five-year term with KfW in Germany.

Next slide please, slide 10, as discussed so far, H1 2018 was a very challenging period for the group with regulatory changes, voice substitution, and difficult market conditions driving down revenue and EBITDA below the guidance provided for 2018. In light of the slow start in 2018 and these challenges, as Waleed has already pointed out to you, we have decided to revise our guidance down for revenue, EBITDA and CapEx. The new numbers are also on the slide. We have a disciplined CapEx approach, a high performing efficiency programme, and strict cost management.

The telecom industry is changing both regionally and globally. Ooredoo Group is at the forefront of the industry and have implemented a strategic programme to help capitalise on the industry-wide structural changes and position it for future growth.

I am hanging over to our Head of Strategy, Mansoor Al-Khater for an update on this area.

Mansoor Al-Khater

Thank you, Ajay. Good afternoon everyone. I would like to provide you with more details on our strategy. Let's take a look at slide number 12. Ooredoo has a bold new vision. We embarked into our major transformation programme which we called Get Digital. With Get Digital, we are digitising our core business and are transforming our entire customer experience from the way we engage with the customer to the products and services we offer and the way we sell to and serve our customers. We reflected this in our group vision by changing our vision from Enriching People's Lives as a leading international communications company, to enriching people's digital lives.

If we move onto slide number 13, it shows our old LEAD strategy framework, LEAD had three pillars which showed which levers we expected would help our OpCos outperform in their markets, which is market leader, performance, culture and efficient model. You may remember that these levers were modular and to be adopted to the specifics of each OpCo and their market, but we had added a specific element below these pillars, which we expected to be common across most of the OpCos.

If we move to slide number 14, as you can see on the next slide, we have added digital transformation and partners below these same three pillars, become a preferred digital partner through fast convenient platform connectivity and favourable partnership model, digitize our operations across system, processes and mind-set, digitise our customer interaction across marketing, sales and customer care. We have added a fourth pillar, Extend and Leverage, which formalises our existing practice and intent to look within each of our markets to build on our infrastructure assets and develop partnerships to extend into new adjacent services. We look to develop commercial agreements on partnerships before we look for equity investments in our 10 markets.

If we move to slide number 15, we are not actively looking to buy more telcos, but we continue to evaluate all opportunities that come our way based on the same investment criteria. Our geographical and sector focus remain unchanged. We would mostly look at assets that would allow us to favourably rebalance our portfolio which are already leaders in their markets, operating in markets with relatively low risk and where we could exert favourable influence through our shareholding.

If we move to slide number 16, in terms of our digital transformation focus, we expect our OpCos to become "Digital Connectivity" players, as an intermediate step towards becoming "Digital Enablers." As a first step, we are digitising our internal and customer facing processes, and going beyond telco by enabling digital services through our ICT and OTT partnerships. As a second step, we intend to find new levers for growth across the group adjacent to our connectivity heritage, while minimising risk. We believe this will allow our OpCos to be more relevant in the marketplace to diversify their source of revenue, to improve the customer experience and overall satisfaction and to improve their cost model by becoming more efficient.

This concludes my strategy refresh. We will now move into the group operational review and I would like to remind you that there will be an opportunity for Q&A at the end of the presentation.

Ajay, please continue.

Ajay Bahri
We will continue with the operational results of the OpCos and we start with Qatar on slide number 18.

In Qatar we maintained our market leading position and delivered outstanding progress in network modernisation in the first half of the year, becoming the first operator in the world to launch a live 5G network on 3.5 GHz spectrum band in May 2018.

To showcased the power and potential of 5G services, we successfully demonstrated three futuristic smart stadium applications during the final of the Emir Cup in May.

Financially, lower handset sales led to lower revenue but improved EBITDA margin. Lower mobile voice and roaming revenues were partially offset by strong performance in corporate ICT sales, following multiple new product launches such as the new fleet management services in Qatar. Customer numbers stood at 3.3 million.

Quarter one to quarter two revenue declined due to lower handset sales, which on the other hand positively impacted EBITDA margin. In addition, as a result of cost efficiencies, the EBITDA increased by 7%.

Moving onto the next slide, Indonesia. As already discussed, Indosat Ooredoo's top line performance was adversely impacted by the new regulation. The transition in the market as well as price competition has resulted in lack of growth in data revenue. Further, a steep decline in voice and SMS revenues is not offset with the data revenue.

What is important to note is that these structural changes to the market, balancing push versus pull strategy presents a new opportunity.

We have changed our strategy to balance pull sales activity and push marketing, designed to increase revenue from bundles and packages. We expect the positive benefits of this change to come into effect later in the year, with a more loyal customer base lower churn rates and eventually higher margins. Operationally, we have continued to expand our 4G coverage during the period.

Q1 to Q2, revenue decline abated although yet to result in positive growth. Q2 has higher promotional activity during Lebran season, which has impacted margins. We are cautiously optimistic and expect to see growth return in the second half of the year.

Moving onto the next slide, Iraq. In Iraq, we see the benefits of the improved security situation with growth in revenue, EBITDA, and customer numbers. Asiacell maintained its mobile revenue leadership and grew its customer base by 7% as the restoration of the network sites in the liberated areas progressed further. EBITDA grew by 10%, faster than revenue growth of 3% indicating good cost management.

Looking ahead to the future, we will continue our focus on exercising strict cost control. I would like to remind everyone that we operate in a difficult market environment affected by a worsening banking system, VAT impact and the political situation.

Next slide please, Oman. Ooredoo Oman continues to deliver good results, with 3% growth in revenue and EBITDA and a strong EBITDA margin of 53%. Growth was supported by our focus on digital enablement, as we cater to the changing needs of both business and consumer customers across Oman. Our award-winning app continues to gain traction and new data products with the flexibility to build your own plan are well received by our customers. We have now extended our 4G coverage and well over 90% of population can experience our fast-reliable network.

Let's move to slide 22. In Kuwait, we reported a significant increase of 23% in revenues mainly driven by handset sales. Our focus on digitisation is gaining momentum as we continue to grow our B2B service offering. Despite strong revenue growth, EBITDA declined 9% reflecting the challenges of operating in a difficult market with intense price competition.

Ooredoo Kuwait's brand equity score improved reflecting increased customer satisfaction. We reported a 5% increase in customer numbers, as we are pleased to see further good demand for our products and services.

Quarter one to quarter two revenue declined primarily due to lower handset sales, which also improved the EBITDA margin. Absolute EBITDA grew by almost 5%.

Let's move to the next slide. In Algeria, revenues were negatively impacted by the devaluation of the Algerian dinar, a weak economic environment, voice/SMS decline and intense competition.

Having said that, data revenues have shown robust growth on a year-on-year basis, and Ooredoo leads the market in terms of mobile data. Ooredoo's customer base was 13.6 million customers with continued growth in data users. We were the first mobile operator to bring 4G to all the 48 Wilayas of Algeria and our 3G and 4G networks continue to be ranked number one in the country. Quarter one to quarter two revenue declined in the market due to competition, which impacted EBITDA margin, although partially offset by cost efficiencies.

Slide 24, Tunisia. Tunisia delivered a robust set of results this quarter. We maintained our leadership in the mobile market, improved customer numbers by 5%. In local currency terms, revenue grew 8%, stimulated by growth in mobile data, and value-added services, fixed line, and handset sales. It is important to note that Ooredoo Tunisia is building its business model by rebalancing revenue mostly to data and VAS services instead of voice and SMS to ensure margin protection. Q1 to Q2 revenue grew by 3% in local currency, and EBITDA grew by 7%, benefitting from seasonality. A better quarter due to holiday season.

Slide 25, Myanmar. Ooredoo Myanmar had an excellent half year with growth in revenue, EBITDA, and customer numbers. Revenues were up 19% with data and digital revenues being the key growth drivers. Our strong efficiency programme resulted in a significant improvement in our EBITDA margin from 7% to 17% year-on-year. Mytel's entry into the market had a limited impact on our business so far, however, price competition has increased, and in Q3 we will fully see the impact of the fourth entrant. During H1 2018, Ooredoo Myanmar made good progress in rolling out 4G, extending it to around 250 townships. We increased customer numbers by 12%.
A highlight for the period, our network was recognised as the fastest 3G/4G network in Myanmar by Ookla Speedtest Intelligence.

That concludes the presentation. I hand it back to the IR team.

Question and Answer Session

Operator

Our first question is from Omar Maher from EFG Hermes. Please go ahead.

Omar Maher
My questions are mainly on Indonesia, so I just wanted to understand or if you could just give us some more colour on what the extent of the issues is in Indonesia or the aftermath of the regulatory registration campaign. How much longer should we expect – I know, Ajay, in your comments you mentioned that you expect growth to return in the second half, you

were cautiously optimistic, but can we expect at least the revenue decline to stop or to see some stability in revenue starting the third quarter, or is this too soon to expect.

I also heard you mentioning – the second part of my question – you mentioned that in the longer run churn rates should decline and this should be positive for EBITDA margin. How fast can we expect this to occur. Is this more of a longer term impact from the registration process, or is this something that we're supposed to see in the short to medium-term. Thank you.

Ajay Bahri
As far as the revenue decline is concerned, we have seen that in Q1 to Q2, so without giving specific details, I think what we can say is more stability is expected in Q3. Like we said, we are cautiously optimistic and then some growth in Q4. I think that is the way to look at this with some cautious optimism.

As far as churn rates are concerned, I think it is a factor of how the industry develops and how fast this transition happens in the industry. It is in a way linked to what the other operators do as well. But the regulation itself is so designed that it should decrease the washing machine effect in the market. When will that start showing results? Difficult to give an exact timeline, but we're hopeful that early next year one should be able to start seeing some positive impact, but like I said, it depends on how other operators also operate.

Omar Maher
Just as a follow-up, the guidance is reduced in terms of CapEx spending, is this entirely coming from Indonesia or is there lower spending in other operations as well?

Ajay Bahri
This is basically optimising the CapEx spend. If you see the higher end of the guidance we have given, it is still within the middle range of earlier guidance, so what we intend to do is optimise, prioritise, repurpose CapEx based on what we have seen in the first half. Wherever there is a need to expand network, to put it another way, wherever there is revenue enhancing CapEx, we will definitely be investing in it.

Operator
Our next question is from Ziad Itani from Arqaam Capital. Please go ahead.

Ziad Itani
Can you please explain a bit more in detail the jump in associate and JV income, to QAR 110 million in Q2, I believe this relates to operation in Indonesia. Also, was this included as part of the reported consolidated EBITDA figure?

Ajay Bahri
When I was explaining the process there and the FX losses, I mentioned about two one-off items which have given us positive results during the quarter. I will tackle both them, one of them is this case, so we had a positive impact coming from the sale of certain investment Rocket Internet joint venture, which will impact our investment in Pakistan Daraz, so we get a positive impact from that.

The other positive impact came from fair value gains from the revaluation of the associates that we have in Indosat Ooredoo, which is an accounting adjustment and not a cash flow impacting gain where the investment moved from a subsidiary, which was held for sale, if you look at the financials, to an associate. When a change like that happens, there is a requirement to revalue the asset when control changes, and that results in booked profit or a booked fair value gain. That is what happened.

Ziad Itani
So, this QAR 210 million is actually a one-off accounting adjustment and it is already included in the EBITDA figure. This is separate from the 236 million gains from Rocket.

Ajay Bahri
That is separate from the Rocket gain and that Rocket gain. That Rocket gain is coming from AIH, which is our investment vehicle in Rocket.

Ziad Itani
With regards to the sale of Rocket, when can you expect the cash flow to come in and what is the amount? The gain is 236 million, but what is the amount?

Ajay Bahri
I think most of the cash, I think a large percentage has been received. Obviously, in a transaction like that, certain holdbacks which depend on certain timeframe, but I would say a big piece of the cash is received. This investment, since it was initially incurring losses, as it was a Greenfield operation, the carry value was minimal, so the profit is in a way reflecting on a big picture basis the cash we received.

Ziad Itani
Since we are talking about cash, just one more cash with regards to the QAR 1 billion acquisition of intangibles in Q2, what does this relate to?

Ajay Bahri
The intangibles, the big piece comes from two operations, we had a spectrum acquisition in Indonesia, which I think was announced earlier, if I remember that was in the 2,100 spectrum, 5 MHz was auctioned. We also had additional spectrum purchased in Myanmar, that was in the 1,800 band. We already had a right to get 5 MHz, we also got an additional 5 MHz and 10 MHz in Myanmar. These are two big acquisitions of intangibles.

Ziad Itani
Just one last question on Qatar, there is a strong recovery in domestic ARPUs across the board, close to 6% q-on-q. What is driving this? Is it increase in data prices? Also, if we are to quantify the main reason for the jump in EBITDA margins, how much would you say is due to lower handset sales and how much on cost optimisation?

Ajay Bahri
The recovery of ARPU is a little bit season, because we had the Eid coming into the period, that helps the ARPU. Secondly, there was a little bit of clean-up of the customer base, so you see a declining customer number, which is not actually a churn out of customers, it is a clean-up of the base. Mathematically you get higher ARPU as a result of that. Cost efficiency was there in this quarter and I would say about 25% is cost efficiency and the rest, I would say, is coming from handsets. Of the EBITDA percentage increase that you see, it is about 5% improvement, out of that, I would say, 1-1.5% cost efficiency, about 3.5% would be because of handsets.

Operator
Our next question is from Nishit Lakothia from SICO. Please go ahead.

Nishit Lakothia
I have a few questions, one mainly on the Myanmar foreign debt. Can we have more details as to how much exposure you have in dollar denominated debt in Myanmar. As an analyst, it would be very helpful if we can get one slide in you presentation where each of your OpCos and the currency of each OpCo’s debt is given, so we know exactly the currency

movements, which is becoming a bit volatile of late with dollar strengthening, how to expect over the next quarter how the impact would come. So any clarity on that, on the total debt of Myanmar would be helpful. Given the Myanmar kyat has depreciated quite significantly in the month of July, should we expect huge impact coming in third quarter and does management have any – is considering any hedging or any other ways of minimising this impact.

First question is on that.

The second question on the Indonesia operations, 21 million out of 96 million where subscribers got impacted from the SIM verification exercise. That's quite a significant number. I mean, generally, the SIM verification exercises have happened in many other countries, but such a percentage quarter-on-quarter, its effect on the – from the system exiting is quite significant. Why is it the case for Indonesia? Thank you.

Ajay Bahri
Okay, as far as the Myanmar debt exposure is concerned, for quarter two we have about 300 million of FX loss in the quarter, about 87, 90% comes from Myanmar and the Myanmar Kyat depreciated about 5% during the quarter. I think you can work back and get the approximate exposure based on that. As far as subscriber decrease in Indonesia is concerned, you're right, the extent was much larger than we've seen in other markets, but at the same time in Indonesia, the market prevalence was also such that a lot of push customers through dealers were deactivated and this was an opportunity to clean up the base well, so that's what happened, but I think your observation is correct in other markets to such a large extent has not been seen.

Operator
Our next question comes from Herve Drouet, HSBC. Please go ahead.

Herve Drouet
My first question is on Indonesia as well and also Algeria, but starting with Indonesia, also there has been a significant drop of the margins. I just wanted to get a bit more colour on where the main reason of this margin drop. Is it mostly coming from registrations, cost associated, and maybe commissions to reseller you have to give again, or is there other reasons beyond the margin weakness we've seen in Indonesia in Q2? On Algeria as well, I mean there is still continuing significant pressure in the market as well, we've seen as well, again as well, a margin pressure, as well as revenue pressure. Do you believe it's mostly macro driven or is there as well the competitiveness has increased within the markets, which makes it even more difficult now to monetize and how long do you think it will take

for Algeria in your view to start to stabilise? Finally, just on your strategy on digital, I just wanted to get a bit more of an idea in terms of your strategy as well on content. Do you see yourself being more active in terms of acquiring content and, if so, could you be limited with your reduced guidance you've given on CapEx and does CapEx include as well potential content acquisition? Thank you.

Ajay Bahri
Okay, let me take the first two questions and then I'll hand over to Mansoor for the digital comment. See, the drop in margins in Indonesia primarily were driven by the revenue decline, which you see over there, and revenue declined as a combination of course of the same registration issue which means we pullback on the push strategy and also a relative decline in voice and SMS revenue, which is really a function of substitution of data from voice. In terms of timing, what happened is the voice and SMS decline has increased at the same time when the data revenue growth is impacted by the SIM registration and push product issue. These two things that happened at the same time, if they had not the impact wouldn't have been that dramatic, but as far as the margins are concerned, this has been offset by cost control as well. You do see quarter-on-quarter cost efficiency coming in, so until we get the revenue growth back, we are working towards strict cost control in the company.

On Algeria, it's a combination of three or four items. One of course is the macroeconomics of the country, which is in the public domain. There is also increased price competition in the market primarily on the data side. Which is impacting, of course, the revenue growth prospect there. The voice and estimates decline is helping in Algeria. However, in Algeria there is growth in the data side, so that's offsetting partially the decline in voice and SMS. There are two other factors we've talked about earlier, which are increasingly becoming less with more competition coming in. One was the interconnect regime, which has impacted us more than the other operators, and lastly there were some new taxes imposed, which are impacting about 1% I would say on the revenue side. It's these four factors are impacting Algeria, as far as revenue is concerned.

Before I hand over to Mansoor on content, that guidance that we gave you on CapEx does not include acquisition of content providers. Any M&A transactions, if indeed that will be done, if at all, is normally not given in the guidance.

Herve Drouet
Basically, just a follow-up question maybe on Algeria. Do you believe we could see a stabilisation in Algeria before the end of the year or you think it will take time to start to see some stabilisation in Algeria?

Ajay Bahri
For the quarter itself we did see a decline in the size of the market, which of course is concerning for us, and any stability will come when price competition abates and we see increasing prices, so no early indications of that as yet, but we're hopeful, logically because all the operators are suffering from this and there is no real market share gain for anyone as a result of the strategy of some of the operators, so logically I think one should see some stability in the coming quarters for Algeria. Let me give it to Mansoor.

Mansoor Al-Khater
Thanks for the question about digital. If you recall from my slides, we have looked at our digital strategy or digital direction from three different perspectives: Digitising our core, which is important to stay relevant to our customers. The real focus for this organisation to move to digital space is how digitise the customer experience, the customer interaction from sales and care. We looked at how we automate back-end of our processes to become much more efficient and to stay relevant for our customers. We did a complete exercise and put in place an action plan according to this area. Then going into partnerships and content, yes, we are looking at content from a partnership model and we have existing partnerships that are already in place across most of our market.

In terms of the content partnership we are moving with the market to make sure that we diversify our revenues through content. From an acquisitions point of view, at this stage, content acquisition, it's not something that we plan. Partnership first and if it makes sense, we will look at equity investment, if this ties in with our existing mandated that we have set out in our acquisition strategy.

Operator
Our next question comes from Pratin Mishra, UBS. Please go ahead.

Pratin Mishra
I have a couple of questions, so the first is related to revenue trend in the domestic market of Qatar. It's quite some time we're seeing the decline in the top line, so how do you see the new trends going forward? The second question is related to dividend policy, so shall we expect any changes in dividend policy going forward, or are we going to continue with the current dividend policy? The last question is related to CapEx, so out of the total guidance you've given, how much is related to 5G? Thank you.

Ajay Bahri

Okay, so the revenue in the Qatar market, if you've seen the decline in the quarter, it's mostly because of handset sales. If you look year-on-year, running costs is handset sales, but year-on-year some of the decline is because of price competition from the B2B side and also in terms of roaming revenues, but overall the market itself is expected to grow.

Waleed Al-Sayed
Wisely said by Ajay and also you can see that the growth is not as much as in the previous years, but there is growth happening at a slower pace. While we get close to organising 2022, we believe that this is going to entirely change and from 2020 up to 2022 we will see significant growth in the market.

Ajay Bahri
Let's move to the question of dividend policy. Dividend policy, there is no change in policy right now, but if there were to be a change of course we would communicate that and just to reiterate, the policy of the board has been to have a flexible policy, taking into account the needs of the business in terms of investment in infrastructure versus the cash generation, the profit generation, and returns for the shareholders. It's a flexible policy, as we speak – as of now, no change in that.

Ajay Bahri
5G is very minimal right now. As you know, Qatar has only done a showcase for this year and if you talk about percentage, it will be premature to give a percentage right now, but going forward of course as we give guidance for future years, we can talk more about it.

Waleed Al-Sayed
5G, the only operator that we have made a commercial launch is in Qatar and the reason for that is, there is a lot to be learned from 5G for the World Cup FIFA 2022. We have started now using some new use cases. We started with the drone video streaming live; virtual reality has been tested in the market and this was very successful, and there are many other use cases that are going to come at the moment. You will be surprised that flying taxis are also under test and it will be demonstrated to the public. However, how we spend on 5G, it depends also from the manufacturer of handsets, because when we were in GSMA it was said that the handsets for 5G would be available in the end of second quarter for 2019. Now, there is a new update on this one that it might go to the end of the third quarter, so we don't know what the reality on this side is and we keep working with the handsets and manufacturers to address this issue and to know exactly when handsets will be available in the market. Based on that, our plan is going to change from one to another. The other thing we have finished just the group RFP on 3G, 4G, and also 5G. The

result is yet to be known and based on the figures that we are going to receive from that RFP will decide about our spend on 5G. As you remember that also one factor that depends on market to market, the ability of spectrum and allocation of the spectrum to us by the regulator.

Operator
Our next question comes from Dilya Ibrahimova, Citi. Please go ahead.

Dilya Ibrahimova
I had actually five questions. The first question is on Algeria, just on your comments on competition. If possible, could you comment whether the competitive pressure is higher than what you have seen in the first quarter? Is this related to Ramadan promotions or is it overall kind of precise cuts that are happening on the market? Maybe you could comment on if there is any particular player that is more aggressive than others. The second question on the proceeds from sale of assets by the joint venture. What are the expectations? Do you expect that proceeds to be paid as dividends to the owners or is the expectation that the proceeds will be reinvested into… or it will be used as a new fund to make new investments? A third question is on Qatar. Looking at the second quarter EBITDA margin, the good increase, most of which is driven by the device sales as you mentioned. Do you expect the second half to be comparable to the second quarter? How will you look at the business – I guess maybe just in general on your expectations for the first half in Qatar would be great. The fourth question is on Indonesia, just for Indosat. You made a comment in the release that you are looking optimistically into the second half and that your revenue must start growing. May I just clarify, you referred to sequential growth or is it year-on-year? I guess that sequential is probably more realistic, but yes, just to clarify. The last question is on Iraq CapEx. It seems like in the last 12-18 months the CapEx was very low and my question is what is the thinking behind this investment strategy for the country? Are you accumulating cash because you are more positive on repatriation, a payment of dividends by Asiacell, or – yes, just if you could give us a bit more background what is the thinking behind the CapEx strategy in the country? Thank you.

Ajay Bahri
I will pick up four of these for Qatar and I will take Waleed’s help for that. As far as Algeria is concerned, you're right, this is a season in quarter two when Ramadan happens and all the operators run a lot of promotions, so there is a little bit of that which has increased the impact in quarter two. It really depends on the promotions, the pullback, and whether they're temporary or permanent, so we’ll have to watch and see how Q3 progresses, but we have not seen much decreasing competition intensity as yet. I think Q3 will be a better test of how this promotional mind-set continues or not, and it’s a function of what others do. If others are aggressive with promotions then one has to respond to that.

As far as the sale of the asset is concerned, we do the Rocket joint venture. The intention right now is not to put more investment in that sphere. If you talk about the overall strategy, I think Mansoor has talked about the strategy that we have, especially on the content side and new areas, so we are focusing more on partnerships going forward, so that vehicle which is there is not focus on getting new ventures in that vehicle.

Let me take the Indonesia question. In the second half, Indonesia, we're talking about sequential quarter growth, not year-on-year and you're right in your assumption there. In Iraq, there is no high level change in strategy as far as the country is concerned. You're aware of the issues in the country, political, for a long time and as people are coming back and investments are getting back into the country from all the operators, including us, so we do expect CapEx to start improving in terms of deployment, with the ability to deploy in some of the areas which were not accessible, so I wouldn't say there is any change of strategy. It was just a timing link to the ground reality in the country and, therefore, we do expect an increase of the network coverage happening in Iraq.

Qatar in the second half, maybe Waleed will assist.

Waleed Al-Sayed
My team will hate me for saying this, because the group should not hear this. We are expecting in Qatar a better second half, especially with some sale and cost initiatives that we are running at the moment, but the results will be recognised by the end of this year. However, at least with the AOP I can confidently say that we are going to be very close, but whether we are going to have growth with last year, yes, but how much is that, I can't declare this one at the moment. EBITDA margin, I am confident that we are going to be with the guidelines of the group and the profits, inshallah, but revenue is the one that I cannot say, but compared to first half, we are going to be head to head or higher.

Operator
Our next question comes from Ziad Itani, Arqaam Capital. Please go ahead.

Ziad Itani
Just a couple of more from my end. On Qatar, I'm just wondering are there any discussions with the regulator to get a free mobile licence extension like Vodafone did back in March?

Waleed Al-Sayed

we have requested that, but it's under consultation with the regulator. They didn't come back to us. As a company we have requested an extension, but we are yet to see what the result of this will be.

Ziad Itani
Is there any timeline where we can expect an announcement or it's still very…?

Waleed Al-Sayed
No, because this was not meant to restructure Ooredoo. It was meant to be it for a complete restructure of Vodafone when Vodafone decided to operate on a brand licence agreement in Qatar, so that was meant to be for solving that issue. However, as any operator competing with us, you will request the same, but it's under consultation, because in their view they didn't feel it should be looked at, but when we requested that, they put it now under consultation and under study and I think that once they finished this, they will come back to us.

Ziad Itani
Second question on Iraq, now that it's your second biggest market in terms of EBITDA contribution, what's the general outlook on that market and what do you think of the tender for a fourth mobile licence which was announced earlier this month, and anything new on 4G launch and how confident are you? I mean, you said that CapEx is set to increase in that market, but how confident are you investing more there in the light of the cash repatriation issues and that your licence will soon expire? I think you are also trying to extend that.

Ajay Bahri
Okay, so on Iraq of course, you hit a couple of dimensions here, so as far as the fourth licence is concerned, right, there has been an announcement on this, but further development after that is not clear and this issue that came up about a year back as well. We've been watching the development there and if all this goes through then of course we'll have competition in all our markets, so we'll do what it takes to tackle that competition. We intend to maintain our leadership position in the market. As far as 4G is concerned, there is no indication as yet when the regulator will start talking about it or give the licence. Rumours must keep coming and going, so I wouldn't like to comment on rumours, so when there's clarity on that, of course that's something we'll be interested in that, and we are the data leader in the country, so we intend to focus on our leadership there.

I think you had a question also on licence extension and whether we are long-term focused on investing in the country or pulling the money out. What you can see, and you've rightly pointed out, is that the Iraq operation, obviously the political instability happened, and they've turned around and churning out good growth, as far as revenue and EBITDA is concerned, and the investment that we do in Iraq is generally funded by Iraq itself. We're not pulling fresh equity from outside, so from that perspective, it is not putting more capital at risk if you're investing the EBITDA within the country, so that risk aspect is taken care of. That perspective, if you're investing fresh capital from outside I think your question would be more critical and more decision making on our part, but here I think since it's the cash generation in the country, I think it works okay for our decision making to invest back in the country.

In the licence renewal aspect, they've not come back as yet on the time table with the regulator, but that is definitely something which we expect to be favourably applied to all the operators who got the licence at the same time, so whenever that issue comes up, we expect a fair decision coming from the regulator.

Ziad Itani
Just one point on investing the cash that's being generated locally, most of the equipment tends to be in USD, right?

Ajay Bahri
Yes, but they're not asking for dollar loans from shareholders for that. What they do is they do get foreign currency from the Central Bank to settle payables for things like network equipment providers, so the cash is generated internally and through the foreign exchange regulation and Central Bank regulation. Settlement is then done for the vendors and sometimes there could be some vendor financing in place as well, but no funding of equity from the shareholders.

Sara Al-Sayed
So we've got some questions. Our first question is from Madhvendra Singh from Morgan Stanley.

"When do you expect to revert to revenue growth at group level? What is driving the better margins? What impact do you expect from IFRS 16? Given such a tough operating environment, would you consider exiting some of the underperforming markets?"

Ajay Bahri

If you talk about rewarding your revenue growth at the group level, I'll have to stick with our policy of giving you guidance for the year, whereas Waleed pointed out, and I also reiterated, the guidance on revenue is still a decline for this year, so when we come to next year, I think we will be reassessing each market deal during our planning cycle which is starting now, and doing that the attribution for that more towards I think the beginning of next year when we give you the guidance for 2019.

What is driving better margins? It's a mix of different countries. There's a cost optimisation piece of that, which we've alluded to in some of the markets. There is also a level of margin improvement coming from lower handset sales in some of the operating countries – countries like Myanmar, which was a very low margin business, has moved from, say, 7% to 17% margin, so it's a combination of all these things, as well as cost control. We talked about Qatar cost control and also at the group level we are making sure that there is good cost control, so all these items together contribute to better margins. IFRS 16 impact will impact next year when we give you our guidance for 2019 we will cover IFRS 16 impact as well in that.

Then you had more of a M&A type of question, do we plan to exit any of our OpCos if they're underperforming? Very often we're a long-term investor in most of our markets and just to go over… when there's a pressure in one year in the industry, don't take long-term decisions. Having said that, we do assess our portfolio every now and then, but we don't make short-term decisions on issues like this.

Sara Al-Sayed
One more question from Talal Al Khamis, NBK Capital.

"What are the sustainable EBITDA margins for Kuwait and Myanmar? Given the new guidance on EBITDA and lower CapEx in reaching the target net debt, is there scope to increase dividends?"

Ajay Bahri
The EBITDA margin sustainability in Kuwait is really a function of what happened in the market as we talked about five years back, the EBITDA margin was high 30s [inaudible] at times. The market has become completely competitive there, so I'm unable to see, at least as of now, competition being at low levels or to the levels that we saw a few years back. I think current levels are the levels one should see. The only point I'd like to make is quarters when we have handset sales, you do see a decline in the margin and not necessarily the absolute EBITDA. Myanmar on the other hand is a growing market, at least for now, and we've seen EBITDA margin improvement almost 10 percentage points before the pre-regeneration last year, the operations in terms of price competition, so we'll have to see how that trend continues during the year. However, as far as cost efficiency is concerned,

the increase in margins on that will continue in Myanmar, but the impact of revenue, it really depends on how the market pans out. The last question is on increasing dividend, so we have reduced CapEx target, but we also have reduced the EBITDA guidance as well, so if you look at the free cash flow, it was actually slightly on the declining side, if you look at the numbers that we've given here, so there is [inaudible] increase in free cash flow from what we told you earlier. Having said that, there was a question earlier that was similar on what we plan to do with some of the gains that we got from sale of assets, so we will look at the cash flow available and the profitability by the end of the year, and reassess in each of the businesses to decide on dividends after the flexible dividend policy that we have.

Andreas Goldau
Thank you very much, Ajay. I think we answered all the questions. Thank you all for joining today’s call. Please refer to the Ooredoo investor relations website for additional updates. Follow us on Twitter @OoredooIR and feel free to contact the investor relations team for any further information. We look forward to your future participation in our next update. We’re probably going to do the Q3 results at the end of October, October 29th tentatively. Meanwhile, thank you again for your continued interest in Ooredoo.