



Zain Group

Q1 2017

Results Call

May 9, 2017

Chaired by:
Nishit Lakhota
SICO



Operator: Ladies and gentlemen, thank you for standing by. Welcome to today's Zain Group's First Quarter 2017 Results Conference Call. At this time, all participants are in 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 will need to press star-one on your telephone and wait for your name to be announced. I must advise you that this conference is being recorded today, Tuesday, 9th of May, 2017.

I would now like to hand the conference over to your first speaker today, Nishit Lakhotia. Thank you, please go ahead.

Nishit Lakhotia: Greetings ladies and gentlemen, this is Nishit Lakhotia from SICO and I would like to welcome you all to the Zain Group's First Quarter 2017 Results Conference Call. It is my pleasure to host Zain Group senior management today on the call. By now you should have received the company's presentation and earnings release for the first quarter which have also been uploaded on the group's website.

Now without further delay, I will hand you with the call to Mohammad Abdal, Zain Group's Chief Communications Officer. Thank you.

Mohammad Abdal: Thank you, Nishit. And welcome everyone to Zain's Q1 2017 earnings conference call. This is Mohammad Abdal of Zain Group Chief Communications Officer and I'm joined today by Scott Gegenheimer our Group CEO of Operations and Ossama Matta our Group CFO. In a moment, we will hear a brief remark followed by a Q&A session.

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

During this call, we will be making forward-looking statements which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Please refer to our detailed cautionary statement found in slide number 1. With that, I will now turn the call over to Scott.

Scott Gegenheimer: Thanks, Mohammad. Good afternoon to everyone and thank you for joining us on today's call. As emphasized in previous quarterly calls, our transformation efforts are continuing to result in operational progress across several of our key markets, however intense competition and foreign currency issues remain the main challenges, impacting Zain Group's overall performance. Although our bottom line growth was slightly positive, up 3%, it could have been much better if not for such a currency impacts.

Operationally, Zain Saudi, Sudan and Jordan performed well in the first quarter while Kuwait and Iraq operations continue to be challenging. In Kuwait, the challenge continues to be the aggressive pricing pressures from the competition. In Iraq, continuing price competition, deterioration of economic conditions and exchange rate, coupled with the accelerated OTT impact has all contributed to the negative impact on the operations and the overall group financial performance.

The highlight of the first quarter was the turnaround and improved performance of Zain Saudi Arabia, which recorded its first ever net profit for the quarter as we continue to drive revenue and market share, and reign in cost via our cost optimization program. The extension of the license for 15 years also positively impacting its financial performance.

Let me start on page 6 of the IR presentation with the key figures. Our Group customer base grew by 1.4% to reach 46.1 million customers at the end Q1 2017. Zain Group consolidated revenues were down by around 12% to USD 810 million, compared to USD 919 million last year. EBITDA for the quarter came lower by 14% to USD 352 million, down from USD 407 million last year, with an EBITDA margin reaching 43%. Net income for the period grew by 1.5%, reaching USD 125 million with an Earnings Per Share of 3 cents or 10 fils.

For the 1st quarter 2017, foreign currency translation impact, predominantly due to the 59% currency devaluation in Sudan from 6.4 to 15.6 (SDG / USD), cost the company USD 148 million in revenue, USD 68 million in EBITDA and USD 32 million in net income. Excluding this currency translation impact, Y-

o-Y revenues would have grown by 4%, EBITDA by 3% and net income by 27%.

Looking at our strategic undertaking and significant investments in our networks, our mobile digital services continue to gain traction and with our non-voice service revenue, which exclude SMS and VAS services witnessed a 4% growth Y-o-Y and accounts for 25% of overall Zain Group revenues.

Going to slide 7, total Group CAPEX for the first quarter of 2017 excluding Zain KSA reached USD 73 million and accounts for 9% of the total Group revenues. CAPEX, if you include Zain KSA, was USD 126 million, which represents 9.4% of the total Group revenues.

During the quarter, Zain entered numerous agreements with world-leading entities to support its digital lifestyle aspirations. These included the creation of a joint venture with iflix, the world's leading entertainment service for emerging markets, to bring video-on-demand services to the MENA region, which we plan to commercially launch in the next couple of weeks.

We also signed a strategic partnership with Amazon to provide Amazon cloud services to their customers in the Middle East and we're the only one that actually has signed partnership with Amazon for rolling out the service in the Middle East.

We also have a couple of other announcements, we joined the Telecom Infrastructure Project (TIP), this is developing the next generation telecom infrastructure, in an initiative co-founded by Facebook, Intel, Nokia, and about 20 other companies on there. So, we're very happy about this and we're starting to see a lot of progress on trying to bring down the cost on the infrastructure side.

We also entered a joint venture with YOYO, one of the most innovative digital start-ups in Turkey, to bring an exciting car sharing club model initially to Bahrain, and later expand across the Zain regional footprint and the MENA region.

In March, we also signed an MoU with Myca Health, this is an innovative Canadian base leader and will rely on mobile electronic medical health record platform across the region.

On a management side, although we already mentioned in our previous call but to reiterate, in Q1 we changed both the CEO and CFO in Saudi (Peter K was appointed as the CEO prior to this he was our CEO in Lebanon and Medhi Khalfaoui was appointed as the CFO who joined from the Group Finance.

In Iraq, we appointed Ali Al Zahid as new CEO he as the CCO in Iraq and Emre Gurkan was appointed as the new CEO in Lebanon, prior to this he was the CSO of the group.

On a final note, I would like to reiterate that there we are focused on managing unavoidable externalities as much as possible and at the same time a firm focus to ensure all strategic partnerships and investments are geared towards driving the business forward across all our markets.

with that, I'd like to hand over to Ossama to discuss the results in more detail and I will come back with the Q&A, thank you.

Ossama Matta: Thank you, Scott and good afternoon, everyone. As Scott covered the consolidated results for the period, let me do the same for our key operations.

Starting with Zain Kuwait, which is on page 13 in the presentation. The operation saw intense price competition coupled with additional operational costs in network expansion and upgrades impact its financial performance for the quarter.

Revenue for the quarter dropped by 6% Y-o-Y to reach USD 261 million down from USD 278 million last year due to the intense market competition. EBITDA reached USD 101 million with an EBITDA margin of 39%, the drop in EBITDA compared to last year is due to the drop in revenues and also due to the fact that we changed the policy for provisions for doubtful debt which was implemented last year and this has resulted in a variance of USD 6 million

higher provision this year. Net income for the quarter reached USD 63 million. Data revenues (excluding SMS and VAS) represented 34% of total revenues.

Moving to slide 14 which is Zain Iraq, the continued political instability and deteriorated economic conditions coupled with the reduction of interconnection rates, (from 0.03 cents to 0.0125 cents), this has impacted the gross revenues by approximately USD 5 million, also the intense market competition and the 20% sales tax on mobile services as well as wide ranging tax increases on other sectors in Iraq hit spending on mobile services which contributed to the negative impact on then Iraq's overall key financial metrics.

The operator's customer base increased by 11% Y-o-Y to reach 12.3 million customers representing 27% of total groups customer base at the end of March 2017. This is supported by the acquisition program that we did in the northern region of Iraq and mainly in Erbil.

For the first quarter of 2017, revenues dropped by 6% Y-o-Y to reach USD 253 million. EBITDA reached USD 86 million, down by 10%, with an EBITDA margin of 34%. Net income for the quarter reached USD 300 thousand down from USD 2.6 million last year affected by the negative top line performance. Data revenues (excluding SMS and VAS) represented 14% of the total revenue which grew by 66% Y-o-Y.

Slide 16 which is Zain Sudan, first quarter 2017 marked another strong operations performance supported by higher voice and data revenues. It is unfortunate, however, that the foreign currency translation impacted us further in Sudan. As mentioned by Scott, the Sudanese pound fell by 59% against the USD from 6.4 in Q1 2016 to 15.6 SDG/USD.

The operation serves around 13 million customers which grew by 6% Y-o-Y. The operator's customer base is the largest within the Group, which represents 28% of the Group's total customer base.

In local currency SDG terms, the operator continues to perform well, as revenues grew by 38% Y-o-Y to reach SDG 1.7 billion (USD 107 million, down

43% in USD terms) for Q1, 2017. EBITDA increased by 22% to reach SDG 594 million (USD 38 million, down 49% in USD terms), reflecting an EBITDA margin of 36% while net income increased by 32% to reach SDG 258 million (USD 17 million, down 45% in USD terms).

The rate change and FX translation impacted the revenue by USD 121 million, EBITDA by USD 61 million and net income by USD 31 million.

Excluding the above-mentioned FX impact, Y-o-Y revenues would have grown by 22%, EBITDA by 31% and net income by 15%.

Data revenues (excluding SMS and VAS) formed 14% of total revenues, with an impressive annual growth of 66% in SDG terms. We are optimistic in witnessing even better results during the course of the year, post the introduction of high-speed 4G LTE in Sudan last year.

Saudi Arabia which is on slide 16, Zain KSA reported its first-ever quarterly profit of USD 12 million compared to losses of USD 67 million last year. The robust performance was triggered by the 10% revenue growth Y-o-Y, hitting a record level of USD 530 million compared with USD 482 million last year, supported by higher data revenues, cost optimization initiatives and positive impact of license extension. The company recorded a significant 49% increase in EBITDA to reach USD 177 million in Q1 2017, up from USD 119 million in Q1 2016. EBITDA margin rose to 33%, up from 25% in Q1, 2016.

The introduction of the biometric identification requirement and the 2 sims rule adversely affected the total customer base pushing it down by 13% with 10.1 million customers at the end of the quarter, however, the revenues have increased as compared to last year.

The operator also witnessed a noticeable 46% rise in data revenues (excluding SMS and VAS) Y-o-Y, which represents 51% of total revenues.

Going to slide 17 which is Zain Jordan. Zain Jordan delivered a solid performance for the first quarter of 2017. The operation managed to maintain

its lead in the market with a total customer base of 4.3 million as of March 2017, which grew by 6% Y-o-Y and represents 9% of the Group's total customer base.

Revenues for the quarter increased by 2% compared to prior year to reach USD 119 million, due to better data revenue. EBITDA increased by 5% to reach USD 58 million, with an impressive EBITDA margin of 49%. Net income witnessed a slight improvement by 1.2% to reach USD 24.5 million as a result of healthy top line performance.

Data revenues (excluding SMS and VAS) represented 36% of total revenues, reflecting a healthy annual growth of 17%.

With that, I will hand over to Mohammad for Q&A. Thank you.

Mohammad Abdal: Thanks, Ossama. With that, we will now move to the Q&A, and we ask that you limit yourself to one question and one follow-up. Operator, can you please repeat your instructions?

Operator: Ladies and gentlemen, we'll now begin the question and answer session. As a reminder, if you wish to ask a question, please press star-one on your telephone and wait for your name to be announced, and if you wish to cancel the request just press the # key. Once again it's star-one if you wish to ask a question.

Your first question comes from the line of Maddy Singh. Maddy, please ask your question.

Maddy Singh: Hi, my question is mainly on Sudan. Given that the FX has depreciated by about 60%, I was also wondering, what drove such strong revenue growth in the local market? 38% growth in revenues is very impressive, so I want to understand what were the key components. On the data if I look at the 66% growth in data which forms only 14% of the revenues currently, it would probably only explain 10% or in fact lower than that of the overall 38%. So, wondering what basically drove the overall revenue growth?

Scott Gegenheimer: Thanks for that question. In Sudan, we had a number of things going well for the operations. The underlying performance of the company has been

fantastic, they're driving new revenue growth, definitely from the data as you mentioned on about 10% of the overall was related the data because we rolled out LTE. You also had on the 38% an impact near about 17% of that was related to the actual FX because you have incoming international revenue and that the incoming revenues at higher rate when you translate it in so there was about SDG 200 million in incremental revenue related to the FX.

So, for me, the underlying business grew about 21% if you take out the incremental increase for the international incoming calls. But even a 21% increase is going well for lot other reasons, you know, but a lot of these just continue to grow our market share and we had a couple of price ups so that's quite a bit as well. Hopefully that answers your question.

Maddy Singh: Was there any price increases affected as well in the market?

Scott Gegenheimer: Firstly, on data, we've had few price increases over the last year but that's flowed through to this year as well but the LTE rollout is really where you're seeing incremental revenue on data. So, I believe we had three price ups in the last, six months or nine months in Sudan. Plus the rollout of LTE and that's starting to pick up quite a bit.

Maddy Singh: Any price increase on the voice side?

Scott Gegenheimer: No, we have not any price ups in voice yet. We're working with the regulator to try to price it up because of the devaluation but we don't have approvals yet on that. So, that's one of the things that we're working on. Hopefully we'll see that coming up in the next quarter or two but we can't promise that because it's all up to the regulator right now.

Maddy Singh: Yes. Thank you very much.

Operator: Your next question comes from the line of Dilya Ibragimova. Dilya, please ask you question.

Dilya Ibragimova: Hello. I had a question on Kuwait. I know you mentioned the drop in revenue and EBITDA. Firstly, could I check whether there are any one-off in Kuwait EBITDA this quarter. Maybe you could explain also what is driving revenue

decline, is it market share loss, have you done some repricing down to match your tariffs with competition and which is driving both decline in revenue and EBITDA. Also it appears that there the promotions and quite aggressive pricing is back in the market in the second quarter, what are your plans and is the market repair story now completely broken and was this something that you've tried to achieve by promoting installment, for example, on the handsets side, any comments on the current developments. Thank you.

Scott Gegenheimer: Let me just kind of give you an overview of Kuwait in general. The overall market is down by 5% Y-o-Y for all the competitors, so there has been some tough competition going on. Originally, we had the last quarter looked like cooler heads were prevailing some of the subsidies been taken off the market but in Q1 and what we saw recently in the last couple of weeks also, I think the competition has been getting a little aggressive on this.

Ossama mentioned during his overview, we had about USD 6 million adjustment related to bad debt provisions so that hit the quarter as well in Kuwait. There has been a lot of pressure on the competition and also from our own side on postpaid, we have lost high value customers but we've been rolling a lot of our new customers in the lower packages which has impacted our revenues. So, when they come off, 1 year or 18 months package, we roll them in a new package. We've had to add more value into our packages because of the competition and so that's driven some of the impact revenue decline which is rolling into EBITDA and a possibility of becoming, so, but we start on that.

We've got a few initiatives that we're rolling out in here in Kuwait and to be honest, I'm not really happy with the performance in Kuwait, so we've got cost optimization, we have to get a little bit more serious there, we've got a couple of programs going on there now. We're going to really be hitting these programs much harder in the next couple of quarters to try to continue bringing up cost out of the operation. We have a digital transformation project going on there as well that we want to pull the cost out of the operation trying to do more self-care. We got self-care out here we've launched recently and we've got social care already implemented in this quarter in Q1. So, there's a lot of things that we're trying to do on this digital transformation to pull cost out of the operation in

order to continue to drive our margins back to where they're at. Hopefully, that kind of gives you an overview and answers your questions.

Dilya Ibragimova: Thank you.

Operator: Thank you. We have a follow up questions for Maddy Singh. Maddy, your line is now open.

Maddy Singh: Thanks. In Iraq, there have been quite a few disputes with the authorities on taxes, on regulatory side as well. So, I'm just wondering, what are the settlements you have already reached or which disputes continuing, what kind of contingent liabilities we should be expecting from these continued disputes, and have you been able to get any cash out of Iraq recently or do you plan to get cash out of Iraq in the coming period? Thank you.

Scott Gegenheimer: Regarding some of the legal issues that we faced here in Iraq, in Q4-16 we announced that we had a settlement of USD 94 million to clear up the capital gains tax, we also had the issue of our income tax in the country as well and we have agreed to have a sort of, an order dispute that the tax in Iraq, you had to pay 25% of the disputed amount, and that's what we're doing on 50 installments, on a month 50 monthly installments on there. We believe that we'll win this tax case, we paid our taxes based on normal financial accounting principles where you come in and your financial books are audited and we pay them. The governments come in and look at it and said, "Look at the revenue" and said, "Let's take a 40% multiple" and say this is your pretax income, you need to pay a tax based on that. That doesn't make any sense, we have our audited statements and so we know what our real taxes are, that's why we're in dispute of that.

So, that's one thing that want to do, but we had to pay the amount of this disputed tax in order to file a claim against and go to courts on there. So, I don't necessary think there'll be any incremental court cases. The other issue we've announced them already in some of the other quarters. We've had a couple of disputes especially on the number range, we've got a USD 100 million tax liability still outstanding. We've won this thing in court three times already. This was where we use number ranges. Originally, it was USD 262 million and

USD 162 million was related to the amount that we're paying in revenue share and that's already been paid in close but they're coming back and trying to charge us USD 100 million in the penalty. As I've mentioned we've already won this three times other court cases and we expect to win this again. So, we don't have any reserves for the contingent liability on it. So, I don't believe we'll have any issues going forward on this. But, again, it's been difficult we have to fight this. We've also have a bilateral trade agreement between Kuwait and Iraq to be able to file an arbitration case against them for dispute. And so, on the process of looking at, I think that has made them a little bit more flexible in closing, I think that's one of the reasons that in Q4, we closed the capital gains tax with them because if we couldn't come to the deal with that then we would've gone back to the (ICC) court, file an international arbitration case against them.

We also had, just in respect to the settlement of USD 94 million, we had a claim against Orascom that was part of our settlement, when we ended up winning that in court in London through the arbitration case and it was USD 60 million it was actually with penalties and with interest, it was USD 71 million, they paid us back on the amount. So, even though we paid USD 94 million to close it, we had USD 71 million paid back from Orascom and they've already paid that back. So, hopefully that answers most of your questions, thanks.

Maddy Singh: That is comprehensive, and just about in terms of the cash flow expected from Iraq and have you got any cash recently out from Iraq?

Scott Gegenheimer: It's part of the settlement when we paid the USD 94 million, all the bank accounts were unfroze. So, and we have been using that money to pay off the tax discrete amount that we need to pay on a monthly basis and then we upstream cash to the group as well. So, we were up streaming with no problem out of the country.

Maddy Singh: Sounds good. Thank you.

Operator: Thank you. Your next question comes from the line of Talal Alkamis. Talal, please ask your question.

Talal Alkamis: Thank you, gentlemen for taking this call. I have a couple of questions regarding Kuwait, basically, we are seeing that data, as the percentage of total revenues is

at 34% versus than Saudi at 51%. What the reason for that, like, is there room for that to improve? In terms of the Capex to revenues that are guiding for 15% for full year, is that sustainable or do you expect that the network there will be more congestion in the network if you don't continue investing into the Capex?

Scott Gegenheimer: I think Kuwait has been much more of a voice market and it's been transitioning into more data. If you look in Saudi, Saudi has been more of a data market. So in all telco, you're seeing a big shift of the data. Some of it is moving more slowly than others and Kuwait because it was such a heavily voice market for us especially our postpaid and enterprise customers, that it's taking time to shift. But eventually, most of our revenue will shift into data because of voice services even if it's not the OTT players when it comes to the WhatsApp and the Viber, using our own data for voice, as LTE for voice, you're going to pick up a lot more revenue moving towards data in general because it's more efficient transport of your signaling. So, eventually you'll have a shift as you start even new packages were coming up, you'll start to see a shift where it includes more data and less voice because people using the VoIP services more. So, you'll continue to see that shift.

On Capex, we are continuing to drive our Capex deployment in Kuwait, and so it just shifting a little bit because we're shifting more into fiber because the amount of traffic occurring in LTE network. So, overall, a lot when you're shifting from 3G to 4G, you have to shift some of your Capex because we're hosting single RAN in all of our markets. So it's generally, single RAN was about 30% of your CapEx expenditure and this is actually decreased quite a bit because using RAN and put in new racks and new equipment when you're moving from 3G to 4G and when you need expansion, it's easy to put in new racks than to increase it. So a lot of your expenditure on Capex is more for the fiber, backhaul, and transmission and it's always changing a little bit on how you're rolling out some of your Capex.

We also got the projects we just recently, I think announced from the last call. We won the MEW project for smart metering for electricity and water and so you'll start to see some more expenditures on different types of what we're trying to do. We're trying to push heavily on enterprise in Kuwait markets. So, over the next, 12 to 18 months, you're going to see a much more of a move on enterprise market and you'll see us shifting on how we spend some of our Opex

and our Capex related to this shift in the market. Hopefully that answers your question.

Talal Alkamis: Yes. Thank you. Just another follow up regarding the cost efficiency in Kuwait. You mentioned that you are doing cost efficiencies, what does that mean, like, in terms of layoffs, what are you guys going to do and in terms of the tower sale update.

Scott Gegenheimer: Relating to the efficiencies, we haven't given a specific targets on how much will cost we're pulling on the operations but I will say that we're leading cost optimization across most of our markets specifically in three big ones really, Iraq, Kuwait, and Saudi are the biggest markets we were driving efficiency. And there's a lot of different ways of driving some of the efficiencies but what we're doing is run some benchmarking initiatives in the past to continue to drive, figure out what areas we need to drive cost of the operations. So, in Kuwait, I think the call centers is one of the areas we need drive a lot of cost out of it not by reducing the cost, coming in the call centers but by also going in to self-care. So we recently rolled out an app so a lot of the stuff that customers used to call in about looking at their bills, you know, they could see them online, a lot easier, you can divert a lot of cost out of the call center and then you take that head count and, you know, some of it is cost savings because as you have natural attrition coming out of the call center, they can leave the company but then also you can take some of the call center guys, turn them into outbound call campaigns and frontline to actually generate more revenue coming out of the call center. You can transition in other parts of the company whether it's HR or marketing, and other areas that had a lot of value into the company. So, we've got a lot of cost that we need to do it. We've also done a lot of conversion of our lease lines in Kuwait converting into IRUs, so you turnaround and you pull Opex out, you put them in IRUs and it drops them into below EBITDA and the capex – because you capitalize your IRUs and drop it out. And there's a lot more efficiencies that we need to drive in the network side. We've already outsourced our (FLM) our first line of maintenance, so instead of having on people onboard to turn on and go out and do the maintenance visiting the cell sites looking at AC and the generations staff them on a monthly basis. We've outsourced that as well and there's a lot of other cost that we can continue to drive out of the business. That goes along similar to

your question on the towers, for us towers is not a strategic asset, for us we want to sell our towers off in all of our markets. If you look around the world, I think, about 60% the overall towers worldwide have been already sold off. It's not a strategic asset for us.

You do it for two reasons. One you want to raise a lot of money from your towers in order to restructure and pay down some of your debt or pay dividends or you want to do it to drive more efficiencies by lowering your monthly cost to maintain your cell sites. What we're talking about is the passive side not the active sides. So, we're not talking about selling off our radio and our active sites, we're only talking about the civil works and the towers themselves but not the radio equipment. So, we expect to have a lot of efficiencies driven off by selling off the towers and raise money from that as well, and we're doing that and the few other markets, we're still waiting for regulatory approval in Kuwait. So, I would've love to say we already have this done, but hopefully next quarter. So, we'll have the regulatory approval then we'll be able to close the deal in Kuwait.

Talal Alkami): Thank you.

Operator: One question coming from the line of Karim Riad. Karim, please ask your question.

Karim Riad: Hello, gentlemen. Thank you for the call. If you could just give us a quick update on the Iraqi market and the reason for the decline in revenues on an annual basis, I know you mentioned some taxes but if you could just give us an update on the competitive environment and the security situation in general in the country. Thank you.

Scott Gegenheimer: Iraq's been a very challenging market for us for a lot of different reasons and it all kind of accumulated to have negative impacts. Another question that there's the instability in the country with ISIS has impacted that the company. We have sites come back on. I believe we have talked about a year and half ago so we had more than 500 sites down. Today, if I recall, the number is about 226 sites are still offline, so we've have sites come back on, but unfortunately when these sites come back on air, the people have left the region and then that's just really revenue that we had before doesn't necessarily comeback on as quick as

they dropped off, but we are seeing incremental revenue coming through from the sites coming back on air. So, it's been challenging on us to do a lot – that competition, there's no question, we've had some price wars. We had a price war quite a bit for probably 10 months last year. We came off the price war in December with Asiacell then a price war started with Korek in January and February, we're out of the price war in March. So, the impact was about USD 10 million a month in January and February just because of the price war. It bounced back in March and we're seeing that bouncing back again and then in March and then in, I'm sorry, in April and going into May because we've got out in this price war but it's challenging, the sales tax hurt the whole country.

If you go back and look what the government did and this has been almost a year now, it's really had an impact and there are 20% sales tax just for telecom but they had sales tax across the board for everything. They had a sin tax, I think it was close to 300% on cigarettes and alcohol. On everything that was on the country so normally when you see a new sales tax specifically the telco and nothing else. You get some elasticity and some markets I've seen as high as 10, 15% elasticity, you have 20%. So, in this case, we had 1% elasticity. So, we lost 19% of our revenue overnight because of the new sales tax. So, that's really had an impact and that's one of the reason that we spent a lot of time focusing on our cost optimization there and trying to drive cost out of the operation but it's been challenge for us. So the cost of the international bandwidth going on in the country is quite expensive, we're paying about 40 times more than what the GCC is paying and so we've been trying to work with the government to try to drive some of those cost. So, some of the incremental margins that we're seeing from data doesn't necessarily flow to their bottom line in Iraq yet but we're still trying to drive cost out of it and reduce our cost. So, as I've said, there's challenges in all the fronts. We do believe that there's a lot of opportunity in Iraq because of the size of the market and the penetration rates especially as you moving 3G, you're seeing data grow dramatically on there, and we expect that to continue but it's a challenge in the market, there's no question about it for us. Thank you.

Karim Riad: Thank you. Thank you very much, Scott.

Operator: Thank you. Once again, please press star-one if you wish to ask a question. Your next question comes from the line of Ziad Itani. Ziad, please ask your question.

Ziad Itani: Hi. Thank you for the presentation. I have one question on Kuwait. You mentioned that one of the reasons for the decline in EBITDA is the USD 6 million in provision but also some expenditures on the network. Can we know the magnitude of this cause and are they recurring in nature?

Ossama Matta: On provision for doubtful debt as compared to last year, we're following up in a new policy that we put in place board approved. I don't believe that it will be as compared to this quarter there is an increase on the provisions going forward, but probably compared to last year, you will always see on a year to date this difference. On the expansion of network, we have put, yes, a lot of capex last year and this has been impacting the situation, however, we can see also on the other side the amortization of subsidies has dropped. So one of them has impacted the other but instead of benefitting from the amortization reduction, it has been offset by increasing depreciation and also the increase in provision for doubtful debt. Thank you.

Ziad Itani: And what's the main reason behind the EBITDA drop in Q1?

Ossama Matta: Coming from revenues, we said that there is a drop in revenues compared to last year, it has resulted in a drop of EBITDA and afterwards also the increase on provisions of doubtful debt.

Ziad Itani: OK. One follow up question, please. How much is the Zain management contract in Lebanon, how much its contributing to your EBITDA?

Ossama Matta: It's incremental actually, like USD 2 million per quarter.

Ziad Itani: OK. Thank you.

Operator: OK. Thank you. We have, again, a question from Maddy Singh. Maddy, your line is now open.

Maddy Singh: Yes. Just following up from the previous question. If I look at the group EBITDA as reported and then add up all the country-wide EBITDA, there comes to be like a significant amount in the other line which basically, the difference between group EBITDA reported and also the EBITDA as a given the breakdown on by market. It's like a significant amount, in 2016, the number comes out to be around USD 178 million, maybe around that number, maybe 5 million, 10 million here and there. What is contributing that, I mean, what are the items included in that number? Thank you.

Ossama Matta: We have at the group level run this year specifically because we've seen the impact coming from the devaluation in the currency in Sudan. We need to maintain as much as we can a very lean and efficient group. So, we are on a cost optimization program at the group level. And this is impacting the advertising, creative, media buying, changing leased lines to IRUs at the group level and some of the provisions related to Saudi Arabia, Zain KSA. Because of the performance of Zain KSA, there is no need for such provisions in the group. So, we have reversed that as well. So all of these has led to an increase in the EBITDA at the consolidated result.

Maddy Singh: So, should we expect the similar run rate of that other line in 2017 as well or 2016 was basically one off year in that regard?

Ossama Matta: I would expect if nothing changes in the operation, Saudi to continue to perform as it is performing now, no devaluation in the currency in Sudan, improvement in Iraq because we reached the bottom in Iraq in terms of profitability. I would expect the same trend to have each quarter as similar to Q1 of this year.

Maddy Singh: I'm focused especially on the other line, not on the country level but just the other line.

Ossama Matta: Anything related to provisions that we have taken at the group level related to Zain KSA, relating to Iraq and the efficiency that I've mentioned which is related to IRUs changing them to leased line which is at the group level. Yes, we will be benefiting from this.

Maddy Singh: OK. Thank you.

Operator: OK, thank you. There are no further questions at this time. Please continue.

Mohammad Abdal : Thanks operator, please refer to the Investor Relations website for additional updates and feel free to contact the IR team for further information. We look forward to your future participation in our Q2-2017 update, the date for which we will announce in the forthcoming months. Thank you all for joining the call. Have a nice day.

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

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