

FINAL TRANSCRIPT

Thomson StreetEventsSM

ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Event Date/Time: Aug. 26. 2009 / 1:00PM GMT



Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

CORPORATE PARTICIPANTS

Stefano Songini

Orascom Telecom Holding - IR

Aldo Mareuse

Orascom Telecom Holding - CFO

Khaled Bichara

Orascom Telecom Holding - COO

CONFERENCE CALL PARTICIPANTS

Delilah Heikal

Pharos Research - Analyst

Alexei Gogolev

JP Morgan - Analyst

Sean Gardiner

Morgan Stanley - Analyst

William Kirby

Nevsky Capital - Analyst

Richard Barker

Credit Suisse - Analyst

Kevin Roe

Roe Equity Research - Analyst

Denise Molina

RBS - Analyst

Mark Krampas

GLG Partners - Analyst

Hashem Oram

EFG-Hermes Asset Management - Analyst

Peter Rhamey

BMO Capital Markets - Analyst

Stephen Pettyfer

BAS-ML - Analyst

Rameesh Narayan

Infosys - Analyst

PRESENTATION

Operator

Thank you for standing by and welcome to the Orascom 2009 first-half results teleconference. At this time all participants are in a listen-only mode. There will be a presentation followed by question and answer session. (Operator instructions). I would now like to turn the conference over to your speaker for today. Please go ahead, Mr. Stefano Songini.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Stefano Songini - *Orascom Telecom Holding - IR*

Good afternoon, ladies and gentlemen, and good morning to those of you connecting from the US and welcome to Orascom Telecom's first-half 2009 results conference call.

Before starting the call I would like to make the standard forward-looking Safe Harbor statement. The forward-looking statements made on this call are expectations based on reasonable assumptions. These forward-looking statements are subject to numerous risks and uncertainties. These statements may not be regarded as a representation of anticipated results which will occur on our expected objectives. The forward-looking statements are only valid until this date, and Orascom Telecom does not undertake to update them in any form.

With that, it is my pleasure to introduce my colleague, (inaudible) [Halil], who will be taking charge of Orascom Telecom's IR department from today's results. I will, obviously, remain within the group, more focused on [Weather] investments, investor relations activities.

With that, I have the pleasure to introduce our speaker today, Mr. Aldo Mareuse, Group Chief Financial Officer.

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Good morning and good afternoon, ladies and gentlemen. So in the first half of 2009, as you probably have seen, after a pretty weak first quarter, the second quarter, as you can see, is much stronger. As you see, performance in Algeria has improved. In Pakistan, the performance has stabilized. Egypt, Tunisia and Bangladesh continue to perform extremely well. And our new startup in North Korea and Telecel also have performed well.

If you look at the subscriber, which is the table one, you see that overall the subscriber base grew at about 9% over the previous year. We had strong performance in Egypt, but also in Pakistan, where we had about 900,000 subscribers over the last quarter, and we now include over 1 million subscribers in Telecel as well as over 850,000 in Lebanon for Orascom.

As far as ARPU is concerned, table 2, pretty good performance in the quarter. Almost every subsidiary has registered an increasing ARPU -- in Algeria, in Egypt, in Tunisia and Bangladesh, which is basically due to the fact that, first of all, the second quarter is always a better quarter than the first quarter. It's also because of all the tariff and promotions that we have done to incentivize traffic.

On the market share, we have increased even further in Algeria and Tunisia. As to Egypt and Bangladesh, we have declined slightly because of very, very active market activity by our competitors.

If you look now at the revenue side on the table 6, obviously we had revenues for the first half of 2009 reached \$2.478 billion, which was a decrease over the last year, mainly explained by very strong [revaluation] of certain of our main operations and currencies of our main operations, notably in Algeria, Pakistan and Tunisia. But if you look at the performance quarter over quarter, you will see that there has been almost a 7% increase in revenues from the Q2 over Q1 in terms of revenues.

On the GSM side, that's on table 6, you see pretty good performance quarter over quarter in Algeria, Pakistan, Egypt, Tunisia, Bangladesh and Telecel in North Korea. So a pretty steady, good performance overall.

The other thing I would like to draw your attention on is that, obviously, after the sale of OrasInvest and M-Link, our revenues do not include these revenues of the subsidiaries anymore.

On the EBITDA side, which is table 8, the same picture overall with the decline over the last year of about 5% but a very strong performance quarter over quarter of about 9%. The EBITDA reached 1.098 billion for the first half and was 9% better over the Q, of Q1.



Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

If you look at the subsidiary detail, very good performance in Algeria, Egypt, Tunisia and stellar performance in Bangladesh, where the margin now reaches a very good level.

And if you look at the margin now, which is page 10, as I said, the margin in Bangladesh went from 25% in the first quarter to 44.5% in the second quarter. So that's a good performance after three years of operation. And we have reached EBITDA profitability in the start-up operations of Telecel and North Korea.

Overall, the margin is up from last year and from the last quarter to about 44.3%.

If you look at the rest of the P&L on table 12, you see that below the EBITDA the profit before tax increased from \$149 million in the first quarter to \$230 million in the second quarter and then the profit for the period increased from \$84 million to \$129 million, also for the quarter.

There has been, obviously, less FX loss in Pakistan and also in some -- the other extraordinary event is, as you know, we have tendered some of our bonds in Pakistan, which has generated some externally one-off gain in this is subsidiary.

On the balance sheet side, table 13, not that much to mention, very stable. Our net debt has increased slightly from \$5 billion to \$5.3 billion, and our average net debt to EBITDA remains around 2.3 times.

On the cash flow statement, table 14, not that much to notice. Obviously, there's an increase in income tax paid from last year to this year, from \$330 million to \$507 million. That's mostly due to a deferment of income tax paid -- income tax due that we obtained last year, and that obviously were due this year.

On the CapEx side, if you look back on table 5, you see that our free cash flow (inaudible) program is on track. We have reduced significantly investments in Pakistan from \$307 million last year to \$52 million, and in Bangladesh from \$206 million to \$50 million. Our consolidated CapEx to sales goes down from 32% to 19% over the first half.

So that's the general overview. With this, I will open the floor to question and answer.

QUESTIONS AND ANSWERS

Operator

(Operator instructions) Delilah Heakal, Pharos.

Delilah Heakal - Pharos Research - Analyst

I was hoping if you could comment on the new tax in Algeria that's on prepaid recharge revenue, and how this is expected to impact performance going forward, and whether or not any of this tax will be directly or indirectly passed on to consumers.

And also, on a separate note, if you could also just elaborate a bit on the tax -- the situation with the tax department and the repatriation of dividends from Algeria?

Aldo Mareuse - Orascom Telecom Holding - CFO

On the first question, so the new tax of 5%, as you say, we are not going to pass this on directly to the consumers. We're looking at ways to mitigate this impact. As you know, this new tax law is very recent; I think it was issued about two or three weeks ago.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

But we are looking. We are talking with the regulators on how we can implement certain measures to limit the impact on our P&L.

On the repatriation of dividend, I think, as you see in our earnings release, we have submitted a file, and it's actually wrongly stated in July 2009, not July 2008, to our local bank to ask for the transfer of dividends. As we do not have a tax certificate giving us a discharge because of the tax dispute over 2004, so far we have not been able to transfer those dividends. We are in very active discussions with the Algerian government, and we expect a resolution of this in the next few weeks.

Delilah Heakal - *Pharos Research - Analyst*

Okay, if I could just go back to your answer on the first question, when you say you are considering measures to mitigate the impact of the new tax on performance, does this include a possible increase in tariff?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

No; we cannot do this. We have -- if we increase tariffs, we have to go through the regulator and we have to -- it's a long process. So, look, I cannot tell you right now because, obviously, it's a competitive market and we're also talking to a regulator. But what I can tell you is that we are looking at measures to mitigate this effect of this tax.

Delilah Heakal - *Pharos Research - Analyst*

My last question is, at the consolidated level, if we look at the effective tax rate, June 2009 versus June 2008, it seems to have increased. Is there any reason for that, or is this an allocation of costs between quarters?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Are you looking at the P&L, or are you looking at the cash flow statement?

Delilah Heakal - *Pharos Research - Analyst*

No, the P&L.

Aldo Mareuse - *Orascom Telecom Holding - CFO*

I thought -- because, if you look at the P&L, which is table 12, the tax for the first half is -- so it's \$213 million, other \$379 million, which is -- sorry -- it's \$165 million. \$165 million, other \$379 million, which is 43%; and last year, was \$178 million and [485]; it's 36.

Yes; the main reason is, as we have last year, we had to distribute some of the dividend in Algeria. This has some timing effect on the tax. But there is no change in the tax regime; it's basically because of certain cash flow items that come in the quarter or on the other quarter.

Operator

Alexei Gogolev, JP Morgan.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Alexei Gogolev - JP Morgan - Analyst

In your table, which represents Tunisia, at table -- I think it's at the back, page 22. Do you provide -- in the left column, do you provide first-half online figures, or is that quarterly figures? Because those figures look quite small to be six-month figures.

Stefano Songini - Orascom Telecom Holding - IR

If I may, Aldo, it's a proportional figure. It's 50% of the figures related to revenue and EBITDA.

Alexei Gogolev - JP Morgan - Analyst

Right, because this -- now you're going to provide the 50% figure, because previously you've just provided the whole figure.

Aldo Mareuse - Orascom Telecom Holding - CFO

That's right, that's absolutely right. And we talk about the [not misleading]. And it's actually -- if you look into the table, it's written proportionate consolidated figures.

Operator

Sean Gardiner, Morgan Stanley.

Sean Gardiner - Morgan Stanley - Analyst

On Canada, can you just update us where you are? I hear that there's a dispute ongoing over the ownership. Maybe you can give us some time lines as to where that is, and also your planned network launch.

And then the second question, just on the effective tax rate, which was raised earlier, how should we be thinking about modeling tax for Orascom for the next six months, and also into 2010? Because I think you've got some losses coming through from some subsidiaries. And I don't know how that's impacting your effective tax rate and how we should try to model it.

Aldo Mareuse - Orascom Telecom Holding - CFO

Well, first of all, on Canada I will answer your first question. It's not a dispute on the ownership. We have, as you know, Industry Canada, which is one of the two bodies to review the license of applicants, has given us clearance on the license and has reviewed our ownership structure. And then there is another body which is called the CRTC, which is a regulator, which has asked for a public review, which will happen at the end of September. So by the end of September we'll know exactly what the CRTC has to say. Obviously, these two bodies have a little bit of overlap in terms of function. So we'll see exactly what is the resolution.

And I will answer the last question, and then I will leave Khaled answer the network. On the tax rate, frankly speaking, you know, you should assume, somehow, a 40% tax rate for year-over-year. That's basically where we are, and that's basically -- the tax rate is a little high because of the withholding taxes we have to pay for dividends that we transfer from Algeria and Tunisia. And I will let Khaled Bichara, our COO, to come onto the network effort in Canada.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Khaled Bichara - *Orascom Telecom Holding - COO*

Well, on the network effort in Canada, as we mentioned before, all the suppliers are chosen and the contracts were signed. The rollout is in place. We've had a press release announcing our first call, I think a month-plus ago. We did also our first national call, and rollout is going according to schedule. It was an initial plan to launch late '09 or early '010.

Sean Gardiner - *Morgan Stanley - Analyst*

Is that a nationwide launch? You are saying that you've rolled out nationwide? Or was that just some cities?

Khaled Bichara - *Orascom Telecom Holding - COO*

Some cities.

Sean Gardiner - *Morgan Stanley - Analyst*

Some cities, okay, thanks. Is there population coverage? Can you get an idea of population that you cover at the moment?

Khaled Bichara - *Orascom Telecom Holding - COO*

Well, we're not announcing the cities we're launching in first, for competitive reasons. So, as you can imagine, I cannot give you the coverage.

Operator

William Kirby, Nevsky.

William Kirby - *Nevsky Capital - Analyst*

I just have a question on Bangladesh. Was the reason for the margin improvement the change to interconnect? And how should we think about that market a couple of years out? What sort of margins do you feel are sustainable there?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Well, this is basically, we're getting to scale. We see the competitive environment has been much better in the second quarter than it has been in the past with less aggressive pricing from all the competitors. And I believe that the EBITDA margins of mid-40s is something that we should shoot for in the long-term.

Operator

Richard Barker, Credit Suisse.

Richard Barker - *Credit Suisse - Analyst*

Can I take you back to Algeria, if you don't mind? I just wanted to ask you about this tax dispute. It sounds like it has come as a bit of a surprise for them -- that they hit you with a tax demand for 2004, which I think is a year when you were supposed to

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

have a tax holiday. Can you just talk a little bit about the dynamics of what is going on here? Should we expect for you to be getting subsequent claims in respect to 2005, 2006, 2007, etc., etc.?

And, secondly, I just wondered how much of that \$550 million that you have in cash which you have sitting on the balance sheet -- how much of that is actually trapped in Algeria at the moment?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Look, obviously we are in negotiation with the government. So I don't want to say too much right now, obviously, because it's a very delicate situation. The only thing I can say is, we are not the only company which has this kind of issue. I believe that we will solve it. But I cannot comment exactly on the dynamic because, obviously, as you can understand, this is a sensitive issue for everybody.

So I will -- obviously, once we have a resolution, as I've previously said, which we expect in the next few weeks, we will disclose everything.

And your second question was?

Richard Barker - *Credit Suisse - Analyst*

How much of the \$550 million-something of cash is trapped within Algeria?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

It's about half.

Operator

Kevin Roe, Roe Equity Research.

Kevin Roe - *Roe Equity Research - Analyst*

The local currency ARPU in Algeria and Pakistan -- they both posted nice sequential increases, Q1 to Q2. Can you talk about the drivers there, usage versus pricing and your expectation for ARPU trends in the second half for those two markets?

Khaled Bichara - *Orascom Telecom Holding - COO*

Again -- it's Khaled here. As mentioned in our last call, knowing that the focus of growing customer base is behind us, so both our -- and in both these markets where we still see customer base growth, but we see most of the value creation will be by increasing the value of the current customers. So in Algeria we've launched a lot of bundled offers with a lot of bundled-in minutes, mainly on-net, so stimulating usage. And that's probably the main driver for ARPU increase.

In Pakistan, probably the focus was also on the quality of the customers and the [development] base, so a lot of people having multiple SIM cards. So stimulating the -- moving the Mobilink SIM card to become the main SIM card for the customer and stimulating usage on that, too. So we see these trends as continuing with maybe not as aggressive growth on the ARPU, so stabilizing or continuing to grow into the future.



Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Kevin Roe - *Roe Equity Research - Analyst*

Stability, or some upside going forward?

Khaled Bichara - *Orascom Telecom Holding - COO*

Yes.

Kevin Roe - *Roe Equity Research - Analyst*

My second question is on Telecel Globe in North Korea. You mentioned in your prepared remarks how they both showed strong improvements in EBITDA sequentially. How should we think about the ramp for EBITDA growth for those two markets? And, longer-term, do you expect those markets to achieve group average EBITDA margins?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Look, on North Korea we always said that we don't want to give timing targets because it's -- frankly speaking, it's a very new market. We are the only private enterprise in the country. So it's very tough; there's a lot of things that we need to solve. So what we can say is that, right now it's going pretty well. But I'm not going to give targets. Obviously, we are the only competitor in the country, so it's easy to have a good margin.

On Telecel, I think here, the objective is -- this, obviously, is a good start. But we need to get this operation to size. So the magic here is to add other operations to get this operation to scale.

Kevin Roe - *Roe Equity Research - Analyst*

Do you expect Telecel to continue to post positive EBITDA in the second half?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

It really depends on which operation we add in terms of external growth. So yes; if you continue like this, yes, with the existing core operations. But that's not the end. The end is to grow this to eight or 10 operations.

Operator

Denise Molina, RBS.

Denise Molina - *RBS - Analyst*

Just can I just follow up on Algeria, just one more question in terms of the tax issue. If you look at your cash and cash flow at the moment, I know you expect a resolution in the next few weeks. But if there isn't a resolution, how much cash do you have available to cover cash needs? How long, I guess, can you go without access to cash flow and cash from Algeria? That's the first question.

And the second question -- just wanted to ask about Bangladesh and the SIM tax there, if there's any update.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

And then lastly, in terms of the CapEx freeze in Pakistan, now that it has started to grow again, if you would consider increasing CapEx there, which has come down quite a bit?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Look, on Algeria, we believe that we have enough cash to look at this couple of weeks issue. So it is not an issue for us.

As far as the SIM tax issue, we are still talking to the governing bodies in Bangladesh. We still have some holes, but we don't have a resolution yet.

As to the CapEx in Pakistan, we have no plans right now to increase the CapEx. We believe that we are -- the subscriber adds that we had in the first quarter were according to plan. And our plan, as we said before, included a very significant cut in CapEx for the year.

Denise Molina - *RBS - Analyst*

Can I just follow up in terms of the cash payments? The dividend that you announced last month, I think at the beginning of this month -- is that due tomorrow? I saw somewhere that the payment was due tomorrow. I just wanted to make sure that (multiple speakers) --

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes, it will be paid tomorrow. The only reason why we have not announced a mix of cash and shares is that there have been some [tidepools] at the Bank of New York. So we will do the announcement very quickly.

Denise Molina - *RBS - Analyst*

And interest payments -- those are is covered, as well, for the next couple of months?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes. Of course, yes.

Operator

[Mark Krampas], GLG Partners.

Mark Krampas - *GLG Partners - Analyst*

I wanted to again -- sorry to go back to this tax issue in Algeria. A lot of the questions which I had have been answered. But I wanted to know, when did you receive the letter notifying you of this?

And secondly, if the amount that's due is only \$50 million, why does that give them the right to hold considerably more than that?



Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Aldo Mareuse - *Orascom Telecom Holding - CFO*

I frankly -- I can't remember exactly when we received the letter. It was --

Mark Krampas - *GLG Partners - Analyst*

Hello?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

This was -- hello, can you hear me? Can you hear me?

Mark Krampas - *GLG Partners - Analyst*

Hello?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes, can you hear me? I think I can hear him but he cannot hear me. Operator?

Operator

His line is open, Sir.

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes, but he -- can you hear me?

Operator

Yes, sir, I can.

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes but -- not you, but the person who has a question. I don't think he can.

Operator

Would you like to go to the next question?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes, please go to the next question.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Operator

[Hashem Oram], EFG-Hermes Asset Management.

Hashem Oram - *EFG-Hermes Asset Management - Analyst*

The first is with regards to the tax situation in Algeria, I'm just a bit curious to -- in Q1 you had mentioned a potential IPO of your subsidiaries in Algeria and Tunisia. I wonder, how does this current situation affect those plans and whether there's actually any direct link to that.

Secondly, with regards to Bangladesh, obviously your CapEx program has been successful. You're saving a lot of CapEx. But do you feel that that's beginning to inhibit your ability to gain market share? Because I notice that there's been a slight drop-off in market share -- maybe nothing significant as of yet, but long-term I wonder how much value you can extract from Bangladesh without actually spending more on CapEx.

And then finally, with regards to the costs associated with Canada, are these included in the table where you have the CapEx? Is that in the other line? And how much actual cash outflow are you expecting to spend on Canada during the last six months of the year?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

On the first question, obviously, we need to sort the tax issue before we can do anything on the IPO front. So yes, of course it has an impact. I don't think it has a [link], but it has an impact, obviously, on any IPO we could do.

On Bangladesh we are -- right now we -- because of the SIM tax, we don't believe that we want to be very aggressive in this country because it's not that profitable. So we would wait until we see some developments on the SIM tax. We might revise modestly the CapEx. But frankly speaking, our loss of market share in the second quarter is something that we are willing to do because we don't believe that subsidizing the SIM tax is the right thing to do in this country.

As to the Canada question, as you know, we do not consolidate this operation, as we do not control it. We consolidate under the equity method, and therefore the CapEx is not included in the CapEx table that you have. And as I have said, our total investment in Canada is around \$700 million. So that includes the actual statement that was made early on last year.

Hashem Oram - *EFG-Hermes Asset Management - Analyst*

Just a quick follow-up to the first question. So hopefully, everything is going to be resolved with the Algerian government in a matter of weeks, as you stated. But effectively, has OT's management resigned itself to one way or the other the actual cash that you would be able to extract from Algeria or the existing cash in the bank or any cash flows in the future is going to be curtailed by more taxes? So basically, we can expect less cash outflow from Algeria to OTI on a consolidated level. Is that a fair statement?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

No, no.

Hashem Oram - *EFG-Hermes Asset Management - Analyst*

Okay. You don't think that -- it's not a one-time tax issue. Obviously, there's going to be (multiple speakers) --

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Aldo Mareuse - *Orascom Telecom Holding - CFO*

The dividends are the dividends. The dividend is -- it's just a matter of how much net income you produce. So then you have the right to repatriate the dividend. The fact that we [are blocked] today is because we have to solve the tax situation first. But that means -- that might mean that we have to pay a little bit more tax in Algeria. If this is the final outcome, we believe that we are very strong in terms of our tax filing in Algeria. But we'll see when this happens.

Hashem Oram - *EFG-Hermes Asset Management - Analyst*

With regard to the prepaid tax that you are -- the top-up tax that's going to be charged in Algeria, the 5% tax, you mentioned in an earlier answer that you will not be passing on this increase to consumers, that you will be finding new ways to mitigate it. Can we also, net-net, expect there to be effect on the margin going forward in terms of Algeria, due to this tax?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes. We will have -- it depends on how we can mitigate it, to which extent we can mitigate it. But it might be a slight negative on the revenue side.

Operator

Peter Rhamey, BMO Capital.

Peter Rhamey - *BMO Capital Markets - Analyst*

Just a quick question on the liquidity position at the hold-co level for your corporation would be terrific to give us some macro sense of where you are funding right now. I assume that you are just funding into Canada and into Africa. Perhaps you could take us through what your pro forma balance sheet looks like, once you've got the Weather Capital financing bond refinanced?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

The Weather Capital refinance is not done by Orascom. This is done by the Weather shareholders. So it has nothing to do with Orascom Telecom.

Peter Rhamey - *BMO Capital Markets - Analyst*

Fair enough, okay. And then where are you, net financing operations today? I assume that most of your subsidiaries are free cash flow positive, and so that's not an issue?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes. We have no -- as we said earlier, we disclosed our liquidity situation. We do not have any debt maturing in the quarter. We do not need to raise a substantial financing except to make a large acquisition, and that includes us (inaudible) financing the operations in Canada and Bangladesh.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Operator

Stephen Pettyfer, Merrill Lynch.

Stephen Pettyfer - *BAS-ML - Analyst*

Firstly, in Pakistan, could you tell us in the last month and a half or so, has there been any notable benefit you've seen from the lower excise and SIM activation tax coming through?

Secondly, just in Algeria, given your very strong usage growth you are seeing there, traffic growth, could you remind me of your annual CapEx plan there?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes. In Pakistan, yes, we have seen this in the last performance, that obviously the reduction of the tax has a good impact on margin. So expect some positive there.

On Algeria, we -- the question on CapEx was on Algeria; right?

Stephen Pettyfer - *BAS-ML - Analyst*

That's right.

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Okay. As we have said during our year-end conference call, we expect CapEx in Algeria to be modestly up compared to last year because of some catch-up we had to do.

Operator

(Operator instructions) Richard Barker, Credit Suisse.

Richard Barker - *Credit Suisse - Analyst*

Just a couple of housekeeping points and then a bit of a bigger-picture question. You've taken some the impairment charges in the quarter. I just wondered if you could just mention where they were for. Secondly, (inaudible) -- secondly, was the gain on the repurchase of the Mobilink debt -- did that attract some tax? Is that part of the reason why the tax rate, the effective tax rate, has dipped up a little bit in the quarter?

And the bigger-picture question is, I heard one or two stories, there's been one or two things that have appeared in the press talking about whether Orascom is maybe in talks with various people about selling various assets or even about getting involved in merger negotiations. I'm sorry if it's a bit of a boring, repetitive question. But I just wondered if you could just remind us exactly what your strategy is over the medium term in terms of how the Group looks at driving inorganic growth going forward. Thank you.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Aldo Mareuse - *Orascom Telecom Holding - CFO*

On the impairment, it's \$12 million. Most of it has come from the ISP we had in Pakistan, where we took a charge of \$7 million. That was an asset that we acquired, I think, a year and a half ago. And we actually now, have figured this into the [PMCL] operation.

On PMCL, as PMCL is not paying taxes, the gain was not taxed. There was no cash tax because of the gain on the bonds.

On the overall picture, I think Naguib has always been very clear. Weather has always been looking at merging with some other big operator, so this is all happening at the Weather level. As to Orascom, yes, we are looking at a small acquisition. We obviously talked about Telecel. In Africa we are looking at any opportunities that generate shareholder value. But these are more kind of smaller acquisitions.

Richard Barker - *Credit Suisse - Analyst*

Just to follow up on that briefly, I'm guessing that the refinancing that you have just pulled off very successfully within Wind is going to largely freeze the state -- the shape of the wider group, the Weather group, if you like. Given the sort of constraints that are around the high-yield instruments, I guess there's not a lot you can do about playing around with the structure of Wind and Orascom themselves and maybe putting them together, for instance.

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Sorry; what is your question, exactly, on this?

Richard Barker - *Credit Suisse - Analyst*

I just wanted to establish what constraints there are about you looking to, at some point in the future, merge Orascom and Wind, which I guess is an old question but one which I think is still probably worth revisiting from time to time.

Aldo Mareuse - *Orascom Telecom Holding - CFO*

So this is not something we are looking at right now. We always said that maybe that's something that we'll look at some point. But right now, if any merger, we are more looking at other strategic partner, obviously, to get to [the size].

Operator

Sean Gardiner, Morgan Stanley.

Sean Gardiner - *Morgan Stanley - Analyst*

On the simple free cash flow target, can you confirm that you are still on track for the \$1 billion that you were targeting, which you announced and I think it was the third-quarter results last year?

And then, secondly, in the fourth quarter you talked about a 10% reduction in OpEx as your cost reduction program. You are now looking at 6% to 8%. What has changed? What have you found more difficult in terms of cost savings versus what you previously expected to achieve? Or was it just because growth is starting to come back to your business, you are less focused on this?



Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Well, I guess the two questions are related. On the free cash flow, obviously, most of the free cash flow savings was coming from the CapEx. As I said previously, when you look at the CapEx number in Pakistan and Bangladesh, we are really on track there. Obviously, as you say, on the OpEx savings we are a little bit behind compared to 10%. So we might be looking at a little bit lower number than \$1 billion because of this. Obviously, there are two reasons for -- the 10% was a target. Obviously, when growth kind of starts again in Pakistan and obviously in Bangladesh, we have to give a little bit of leeway to the subsidiary. But that's just basically implementation of the OpEx savings plan.

Sean Gardiner - *Morgan Stanley - Analyst*

And along with that, if you look at the margins for the first half, where would you expect to see improvements in the second half in your businesses? And where do you think that you might see, outside of the Algerian revenue share tax or whatever that's construed as, where do you think you will see pressures?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Do you want to look at the first half, or the last quarter?

Sean Gardiner - *Morgan Stanley - Analyst*

Last quarter, first half, just to try and understand how you think that the pressures will come.

Aldo Mareuse - *Orascom Telecom Holding - CFO*

I don't expect major -- sorry, let me just look at the table. I don't expect major changes in Algeria, Pakistan, Egypt or Tunisia. Obviously, Bangladesh was an extraordinary performance. We might go a little bit lower than the last quarter performance. And Telecel in North Korea are a start-up, which is a little bit more difficult to predict than the quarter to quarter.

Sean Gardiner - *Morgan Stanley - Analyst*

But in Pakistan you don't think you can see a rebound from these reduced activation taxes or the other things which are going to offset that?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes; I think you are right. But we remain cautious. The performance has stabilized in Pakistan, but we remain cautious. So yes, you should; you should see some improvement. But obviously, the recovery is very recent, so we have to be a bit cautious about making some bullish statement about the margin improvement in Pakistan.

Operator

Denise Molina, RBS.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Denise Molina - RBS - Analyst

Just a couple of follow-ups. First, on Algeria, this is an operational question. But I was wondering -- the unlimited [party] plans that you've put forth that caused the spike in the MOUs seemed to be quite successful. I'm just wondering if you plan to carry those on and if you think that you are going to introduce that into other markets as well.

And then, second, if you could just tell us how much revenue you've received, ballpark, from Lebanon to date, just (technical difficulty) how much on an annual basis we need to put in our model. Thanks so much.

Aldo Mareuse - Orascom Telecom Holding - CFO

Okay. On Algeria, I'm sorry, I didn't hear you very well. Can you just repeat the question?

Denise Molina - RBS - Analyst

Yes. In terms of the unlimited calling plans that you were introducing into the market -- I think you mentioned that in your press release -- you saw quite a good pickup in MOUs, and I'm guessing that was driven partly because of the unlimited plans. I'm just wondering how those are going, if you are continuing those and if you think that they're plans that you might introduce into other markets as well.

Aldo Mareuse - Orascom Telecom Holding - CFO

It's not fully unlimited plans. We've done in Algeria two packages. One, which has bundles of minutes, which would increase the usage and then stop the clock after a certain amount of minutes. So yes; these plans are working very well, as you mentioned. And we are looking at using some of them in other markets. Again, it depends on the maturity of the markets. And we were also looking at also segmenting that by specific time of day to leverage the network in terms of network usage, so that does not affect the CapEx needs. I don't know if that answers your question.

Denise Molina - RBS - Analyst

No; that's very good. Thank you.

Aldo Mareuse - Orascom Telecom Holding - CFO

(multiple speakers) just give us a second. It's \$23 million for the first six months, for Lebanon.

Operator

(Operator instructions) Delilah Heakal, Pharos.

Delilah Heakal - Pharos Research - Analyst

I just wanted to ask about Bangladesh. After the major operators withdrew the SIM tax subsidy, to what extent do you expect this to impact market growth going forward?

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Well, actually, what had happened recently -- and this is why we lost a bit of market share -- is that one of the competitors, namely Actel, has restarted to subsidize the SIM tax. The others have not.

Delilah Heakal - *Pharos Research - Analyst*

Okay, including Banglalink, you've also withdrawn the SIM tax? (multiple speakers)

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Grameen, which is Telenor and us, do not subsidize the SIM tax. Actel, Telekom Malaysia, have started to subsidize the SIM tax again.

Delilah Heakal - *Pharos Research - Analyst*

And do you expect this to impact market growth in Bangladesh?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Well, the current growth you're seeing, because from the beginning of the year there has been more or less no substitutes. But current growth is the result of no subsidies. Then we are seeing some other players now trying to reignite more growth with -- working with subsidies, and we will selectively decide to react on that to protect our market share based on need base.

Operator

[Rameesh Narayan], [Infosys].

Rameesh Narayan - *Infosys - Analyst*

I would like to know, do you have any open credit lines as of June '09?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Sorry; can you repeat the question again?

Rameesh Narayan - *Infosys - Analyst*

Yes, sure. Do you have any open credit lines from any banks, [unbound] credit lines?

Aldo Mareuse - *Orascom Telecom Holding - CFO*

Yes.

Aug. 26. 2009 / 1:00PM, ORASYP - Q2 2009 ORASCOM TELECOM S A E Earnings Conference Call

Rameesh Narayan - Infosys - Analyst

Yes, [can you give] the amount; how much it is?

Aldo Mareuse - Orascom Telecom Holding - CFO

That's not public information. You will see it -- actually, in the financials, you will see everything you have in here. I can't remember off the top of my head how much I have.

Operator

And there are no further questions at this time. Mr. Songini?

Stefano Songini - Orascom Telecom Holding - IR

Yes. I think that concludes our presentation of the results today. Thank you very much for attending the call and thank you for the Orascom Telecom management for attending this call. Thank you. Bye-bye.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2009, Thomson Reuters. All Rights Reserved.

