Qtel Group Q1 2010 Results Call
23 April 2010

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Operator

Thank you for standing by and welcome to the Qtel Group Q1 2010 results conference call. At this time all participants are in a listen-only mode. There will be a presentation followed by question and answer session at which time if you wish to ask a question you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Friday 23rd April 2010. I would now like to hand the conference over to your speaker today, Mr Carson Wolfer. Please go ahead, sir.

Carson Wolfer - *Qtel Group - IR*

Thank you, operator. Hello and welcome. My name is Carson Wolfer and as part of the Qtel Investor Relations Team thank you for joining us for today's call to discuss Qtel's 2010 Q1 financial results. As part of today's discussion I am pleased to introduce Mr Ajay Bahri, Chief Financial Officer and Mr Rick Seney, the Qtel Group's Chief Operating Officer.

We will first open with an overview of the Group's results followed by a question and answer session. Before we begin, a few necessary disclaimer points if you could please refer to slide number one. In the course of today's discussion we may make some forward looking statements, these will be based on the information available to us as of today and so you should not assume that in the future we will continue to hold these views. As such, we do not commit to notify you if our views change. We therefore refer you to our public filings for some factors that may cause forward looking statements to differ from actual future events or results. So, to begin I will now hand over to Ajay. Ajay.

Ajay Bahri - *Qtel Group - CFO*

Thank you, Carson and welcome to everyone on the phones. Let's begin by turning on to slide number three. Firstly, we have had very solid financial results in this quarter. The revenue increased 14.2%, EBITDA 14.4% and net profits more than doubled to 104% when you compare them to the first quarter of 2009. Now, as we've announced previously there was a change in the royalty which is a one off benefit we got in Q1, an amount of QAR 554 million in this quarter.

Secondly, we've had positive performance across all our operations. In Qatar competition remains steady as in Q4, but Qtel companies continue to adapt well to the changing competitive dynamics. Performance in Q4 continued in Q1 as well, with the new management gaining further traction and across the Group also good performance was seen in Tunisia, in Iraq and Algeria.

So, all in all, a very positive start for 2010 which is underpinned by continued strong commitment and proven support from the State of Qatar for the Qtel Group and its strategy. The strategic strength of our balanced and diversified portfolio was evident in this quarter where impacts at mature relations were offset by the growth markets.

Moving on to the next slide immediately we cover financial performance of the Group. We continue to see very good performance. As I've mentioned previously the consolidated revenue in Q1 2010 grew 14% over Q1 2009 to QAR 6.42 billion. Similarly the EBITDA increased 14% over the same period last year increasing to QAR 3 billion. The EBITDA margins during this period have held steady at about 47%.

Moving on to the next slide net profit attributable to Qtel shareholders increased year on year 104% to QAR 1.2 billion. The impact of royalty which I addressed to you earlier, if this were to be taken out because it's a one off impact we still saw a net profit increase of 11% to QAR 658 million. I'll get into more detail about the Group's debt, but looking at the Group's net debt and net debt to EBITDA one can see that the net debt is reasonably stable compared to the previous quarter at about 24.1 billion. The gearings within range are very comfortable at 2.11.

Moving onto the next slide, slide number six, our capital investment programme remains on track. To reflect on the continuing commitment to invest in those opportunities where we see the greatest potential for growth and return as well.

Moving onto the next slide, as far as the Group's debt portfolio is concerned you can see that the total debt remains consistent with what we have reported previously. The split between long term and short term maturing debt is a reflection of the success we've had in redefining our debt in 2009, specifically the forward start facility and the bonds. I will be giving you an update on some refinancing we've just recently concluded. If you look at where this debt is held again Qatar continues to hold the majority of the Group debt with Indonesia holding approximately 28% with the balance split primarily amongst Algeria, Iran and Tunisia. Next slide please.

This slide shows you the Group debt maturity profile and how we've been able to extend the profile of our debt. An update I need to give you today which is not in your slide is that today we have closed the refinancing of our forward start facility. Some of this was in the news as speculation but we've finally closed it today. What this refinancing does, is take care of the high cost which we were paying in our earlier forward start facility. As you remember the refinancing of the forward start facility was done last year when the markets were not the best. There has been a tightening of margins as is evident and as much as 50%, so we have taken advantage of the improving credit market and at the same time we have extended the maturity of the profile. What you see here, instead of the 7.2 billion due in 2011 now we have in 2013 1.2 billion which will be close to about 5 billion due in 2013 and another $750 million due in 2015. So, overall the maturity profile has been extended, the cost has been brought down and the 2012 maturity that you see of the loan of $3 billion that's primarily covered by the loan itself which are locally drawn is offset by the amount of cash that we hold in the balance sheet. So, the majority profile now only gives a risk of maximum $1.2 billion in any given one year going forward, so the spikes that were earlier a feature in our debt majority profile have been taken care of. Our successful independent financing gives us confidence in our ability to engage with the debt community again should we need to do so. Next slide please.

I would like to mention we do not focus on headline subscriber numbers but we continue to see good customer base growth. This is driven primarily by key markets such as Indonesia, Iraq, Algeria and Qatar as well as our newly launched operations in Palestine. Next slide please.

In this chart you can see a recap of financial performance for Q1 2010. As I mentioned at the start of today's call Q1 2010 has been a solid start for the year for Q2 growth. We believe we have solid management with the right strategies and the right focus in place with our trading companies coupled with what we hope is a sustained improvement in the economic climate all round it looks positively towards 2010. Next slide please.

Now, finally I wanted to outline our 2010 Group level guidance. From the top line performance forecast for 2010 it increases between 5% and 10%. Investment in our growth market continuing but at a level similar to 2009 with an increase between 2% and 7%. We analyse the value in providing net income guidance and have taken the position to not provide high variability and extraordinary items we have seen, both in 2009 and 2010. Last year we had a huge amount in Kuwait, this year we've seen one off gains coming in Qatar operations by 54 million which I mentioned earlier. All in all, a positive outlook for the Qtel Group in 2010. Next slide please, slide number 13.

I'm not going to talk much on our strategy and on this slide the key message that Jeremy Sell had mentioned in the last call is that our strategy and our focus remains the same and there's no change in our overall strategy. So, I would now like to hand over to Rick Seney who will give us an overview of the Q1 growth generation. Rick.

Rick Seney - *Qtel Group - COO*

Thanks, Ajay, greetings everyone. simply put, a solid start to the year in what is normally a quiet seasonal quarter in most operations particularly with the stabilisation of our home market of Qatar and we're seeing more growth in the key drivers like Iraq, Algeria and I'll go into this more in a moment. As we go through each one, one common denominator to keep in mind: Q1 is generally seasonably down for many of the operations, that's the normal pattern.

Also for your comparisons, note that there were key currency moments in two of the markets in Q1, first the IDR strengthened further, the average rate improvement was about 2% over Q4 compared to the USD and QAR and in Tunisia the dinar rate weakened about 4%, the rest were stable. Let me drain through them if I might. Let me start with the home market here in Qatar. The Q1 dynamics stabilised in a number of ways. Particularly March was strong with good momentum exiting the quarter. The royalty question, the one that you've often asked about before, Ajay addressed earlier. That was successfully resolved with a big win for Qtel and of course this is a reduction that has a retroactive impact in terms of previous royalties and that big income pickup. But more importantly from my perspective it demonstrates the strong government relationship that exists here and the continuing support for Qtel.

Revenues. Qatar revenues were basically the same as Q4 but again in a period with seasonally down usage which implies underlying growth and improvement. The reductions in international long distance prices has been talked about before and Nick addressed that in the last call. That's given us the opportunity to change the international billing increment to per minute and this has helped stabilise the revenue and the prices and moreover some of the promotions have stabilised from prior periods. International rates for us are one Riyal in March versus about a half Riyal in January as an example. Mobile customers continue to grow slightly, active customers remain relatively flat which means the churn from Vodafone is being balanced by new ads. The fixed line and business momentum continues similar to the last year and the last call's discussion that Nick talked about.

Our competitor continued to be reasonably aggressive with price in Q1, international rates at roughly one half to one Riyal although that's raised up a little bit here in March. They launched an aggressive promotion with 2,010 free minutes, with restrictions, for 25 Riyals, it was very aggressive. Despite that we've held our own; we continue to use a very segmented approach to the value packs and our smart promotions have done well. Surveys interestingly show that customer's decisions to opt for our competitor are overwhelmingly driven by price and that's an interesting outcome given who our competitor is. Our network continues to be a major advantage for high value customers and I'll just lastly - for those of you that are following the fixed licence process – say that we expect our competitor to finally receive a fixed licence in the coming weeks and also on a further detail UDC has been given a passive infrastructure licence.

We've in previous calls discussed Qatar's economy and its shifts. It certainly impacts the growth levels going forward. Reports continue to show that the economy has stabilised at rates similar to last year and may pick up here as the year wears on.

EBITDA is up 5% from Q4 and margin has lifted to 53% up from last quarter at 50%. And that improvement was driven by a combination of more cost efficiency and control on the one hand and some of the one time expenses in Q4. Looking back to the prior year. If you're looking at the first quarter of '09 the shift in international prices with the higher traffic but reduced margin and the other competitive impacts and prices and lower share have driven the changes. But you get a good feel of the heartbeat from the sequential numbers that I just previously discussed. We're also excited in Qatar about the recently announced fibre project, it's going to cover roughly half the country over the next two to three years and for those that are interested it'll be predominantly based upon [unclear].

Moving to other parts of our world – Iraq. Iraq remains an exciting growth story. Customers up 5% in Q1 even in the face of the continuing government enforcement of their customer registration requirements and the seasonality. Revenues were up a similar 4% with healthy ARPU and that just to recount represents a 34% increase over Q1 2009.

EBITDA particularly strong in Q1, reaching a margin of 58%, that is an unusually strong number due to a couple of things, the first a relatively low marketing spend in Q1, second the third party maintenance contracts with the big network vendors, those don't fall typically evenly within the year and that cost is lower than in some of the other quarters. And there's a few other costs that don't necessarily fall evenly within the year. Net income was also particularly strong in Q1 partly of course because of the EBITDA and also remember that Q4 net income looked low because of that additional management fee among the shareholders that we talked about last quarter.

Asiacell continues to push further with network build and has a clear roadmap to continue to bring quality and performance levels better and higher over time to better serve customers and as that market gets more mature that's going to become increasingly important. We will see changes in the Iraqi market during Q2. That has started, it obviously isn't represented in the numbers yet but it relates to the government mandated conversion to the Iraqi dinar based billing and a move to pricing plans with per second basis. You may have heard about these because they've been in the news in the market there since they were introduced beginning of April.

I know one question you immediately have in your mind, note that the per second structure was introduced which revised prices to support the existing revenue levels, not just the previous prices divided by 60. Note that from our perspective Asiacell has been by far the most proactive operator in communicating a lot of these changes to customers, it's had a lot of confusion in the market and especially with the customers of the other operators. And Asiacell continues to focus on promoting its strong Iraqi identity and a sense of trust and transparency with the Iraqi people as it aggressively rolls outs its network.

Indonesia. We have the same limitations as we did last quarter, only a limited release of Q1 results has been given, full results to come shortly, therefore I can't address further specifics, it would be nice to, but what key points can we make? First revenues. I think in a trend sense this is important. Q1 Indosat resumed year over year quarterly growth after previous quarters of decreases for the reasons that have been talked about in the market before. These are specifically with the 5% lift in Q1 revenues over 2009. Sequential quarter, total revenue was down about 5% with the cellular business itself down 4% and note that Q1 is historically down in that sense within the market. And note also as we've said in previous quarters that pricing for a significant portion of non cellular revenues are denominated in USD and therefore the strengthening of the IDR that we talked about earlier depresses the revenue trends.

Customers. Customers grew from 33 million in Q4 to 39 million at the end of Q1. We talked about some of those dynamics with some lively discussion in the last call. This continues to reflect a balance of the value and the growth strategies. Our focus here I think was particularly key on that EBITDA number and you can see as I'll talk about in a minute that that's held constant on a sequential quarter basis and as suggested before I continue to recommend that you focus on revenue and EBITDA as key drivers in the Indonesian market.

EBITDA down just slightly at a 50% margin and there of course I can point to the revenue trend. By the way if you compare Indosat's earning releases note that it reports in Indonesian GAAP not IFRS and if you look at their EBITDA presentation it says 47% but that's because certain costs are viewed in a different way so that's not inconsistent, that's the nature of the accounting involved. So, if you're looking at trends make sure you've got apples to apples.

Net income, note that the reported results are heavily impacted by currency swings; it moved another 2% Q1. And lastly just the headline, Indonesia is a big market that continues to grow, and also interestingly its potential was punctuated recently by its sovereign rating upgrade.

Oman. 2010 has begun with a buzz around the build up of the new fixed business and with the incumbent's mobile customer share now just barely very marginally ahead of Nawras, and that's a good result for the first five years of Nawras operation. Specifically on the fixed business we're looking at launches of the business and consumer segments right around midyear.

Customer growth. It continues, up another 4% in Q1. The Nawras market share dipped slightly Q1 due to the reseller additions as we've discussed before. A fee comments quickly on that, the resellers continue to focus on specific niche segments especially the lower end segments that are more sensitive to low international prices. You've seen the resellers there announce customer numbers but keep in mind that the actual revenue is much lower than these numbers would imply and also I'd add that the Nawras Shababiah brand that also competes in that space continues to grow.

I think the key point, the key take away today, is that the Nawras customer based continues to grow despite all that reseller activity that we've seen. The competition's been focussing recently on starter pack offers, they've used some low and promotional ILD pricing and some new broadband pricing and Nawras is especially focussing on differentiation with customer experience, brand, attention to business segments, innovation, in addition to competitive offers.

In analysing the Q1 numbers there are a couple of key points we need to make so that they make sense to you. The last call we discussed Q4 'one times' that made the Q1 results extraordinary and today I'll normalise the comparisons to give a similar picture of the Q1 heartbeat. As you recall Q4 reflected a large level of unusual limited inbound roaming that ended early in Q1. Also there were unusually low Q4 domestic interconnect costs reflecting a cumulative positive catch up for a multiyear settlement agreement. Just to put some numbers now to things, reported Q1 OMR revenues were down 9% in the reported data, the normalised decrease was 1.75% which reflects the normal Q1 downward seasonality softness and to a lesser degree some decrease in ILD revenue from the resellers in the market. The Q4 EBITDA margin still reached a high 58% in Q1 down from the 64% in Q4 but also Q1 reflects one time lifts in addition to those we talked about for Q4. It's got a lift of roughly 2.3 million OMR, mainly from achievement of some higher tiers in the international interconnect costs with Omantel that had retroactive impact and that gets picked up in the quarter.

Factoring out the limited time roaming benefits in factoring out the benefit of the international interconnect adjustment the EBITDA was still a very healthy 52% for Q1 and that's consistent with the normalised Q4 53% that we discussed last quarter. I'll also add that that 52% reflects the impact of some start up costs in the fixed line business that we've been seeing and that reduced the EBITDA about 2%.

Kuwait. The key Q1 message is that Wataniya continues to maintain a constant market share, the dynamics remain stable. Total customers grew between 5% and 6% from Q4 with good growth, especially in the important post pay driven segment which is important as it's loyal etc, profitable, due to, or I guess I should say driven by new business oriented offers and with the prepaid W net data line service launched Q3 last year. We continue to see good impact from the loyalty and the retention focus that we discussed last quarter. These included for example the BlackBerry push including prepaid BlackBerry that's now proven very popular. Wink which is the innovative youth product, Maxpress which is the prepaid offer designed to upsell high end prepaid units of bonus thresholds and also the focus on the retail and the customer experience.

Revenues. The average pattern in Kuwait is seasonally down from Q1 to Q4 in the typical seasonalities in the few percent range but actual revenue actually increased 1% which implies continuing growth and the heartbeat consistent with the customer growth.

EBITDA, some key points here are needed to understand the shift in EBITDA between periods. The EBITDA in KD terms is a reported margin down to 41%. First the changes from the way some of this has been presented before, we've made some changes in the methodology for reporting EBITDA. The monthly licence fee expenses have been reclassified as part of Opex thus decreasing the reported EBITDA margin and previously this cost was below the EBITDA line. Also going forward we've now combined the results of Fono. Each quarter's results now reflect this combination of numbers in order to show apples to apples and this depresses the EBITDA a little bit, about a percent or so for the quarters presented and Fono as you will recall is the retail chain shop that was acquired last year in Kuwait. Combined these two things decrease the EBITDA margin about 1.4%.

Second, other than the methodology changes the Q4 margin was particularly high as you will recall from the unusually low costs and the year end approval adjustments. And Q1 on the other hand has got a new bad debt reserve methodology that was adopted and the reserve was increased about 800,000 KD in Q1 which reduces the EBITDA margin 1.6% and specifically the methodology was changed to be more prudent as we increased that proportion, that post pay versus prepay customers as part of the overall business plan. For net income comparisons you'll recall also that Q4 had an eight million KD write down of the investments which depressed the Q4 net income.

On the regulatory front I think a simple expression, status quo. And lastly I'll add that Wataniya continues to be very proactive with new network and technology developments, it's rolling out 21 megabit HSPA in key areas and this is the basis for the more, the expanded, the rich database services that we see going forward and it provides needed capacity increases but it's also being done as a planned natural evolution.

Algeria. In Q1 you see more impact of the window of opportunity that we discussed in the last call. In Q4 as you'll recall a large volume of SIMs had been pushed into the market and a significant portion of those weren't yet generating revenue in Q4, it obviously increased Q4 costs and depressed revenues with the distribution channel airtime bonuses also as we discussed last quarter.

On the revenue side, revenues in DBD terms were up 2% sequential quarter, but when you consider the very significant Q1 seasonality in Algeria the heartbeat there shows a good increase especially in the March results. Q1 also still feels some dilution from the airtime allowances also from that big SIM push. The impact is less than it was in Q4 but it still has an impact in the few percent range.

On the EBITDA side, Q1 EBITDA rebounded as expected back to 35% with the revenue lift, but also tied to a couple of other things, those being the large cost of that big Q4 SIM push and commission and SIM costs themselves etc. Second, cost efficiencies, especially some reductions in the big vendor maintenance agreements. And those two improvements partially offset by some increased costs for the expansion of the national and the local football team sponsorships that have proven so successful.

Customers. Reported customers rose 242,000 for Q1, that's about a 3% lift, but those numbers don't tell the story because of the large push into the distribution chain late last year. Given the dynamics here with Nedjma and the other operators I continue to recommend that you focus on the revenues as a better indicator of what's happening in the market. For the Q1 market share estimates that you see in the materials, Nedjma has made some assumptions about the shift of customers away from our largest competitor in the wake of all those events from last year. We've seen a significant churn on to Nedjma but the fall off in the recognition of those by the competition has a time lag to it, that's typically a 90 day time lag, so in reporting on market share estimates we've made adjustments based upon what see happening in the market. And based upon that you'll see that Nedjma now holds a 31% SIM share for Q1, but again I recommend strongly you should focus on the revenue movements.

Algeria remains a further growth opportunity for us, the focus is on achieving our fair share of this large market that's been historically dominated by one operator. Our competition is in some turmoil as you've seen in the press which is not our problem and we are concentrated and focused on growing our share by a couple of things, building on our popular brand, supported by these very visible and successful football sponsorships, aggressively pushing our SIM penetration and pushing more into the higher value segments with enterprise programmes, value packaging other initiatives as well as expanding the comparative retail and point of sale presence.

Tunisia. Another solid quarter with the third operator still not quite launched. The Tunisian market has particularly a significant seasonality pattern with its summer vacation movement in comparisons to prior quarters maybe in the prior year actually the most useful. If you look at Q1 of this year versus Q1 2009 revenues up 13% with our mobile market share as you know well over 50%. The EBITDA margin is 53% stable with prior periods and somewhat up from Q4 without the Q4 charges that we discussed last quarter. As I said, the third operator's not quite launched, we expect a national roaming between the new operator and our existing competitor but the timing of that national roaming introduction is not clear. And as mentioned in prior calls Tunisiana has been strengthening its position in anticipation of them coming. The classics, the loyalty retention programmes, community based offers that it's been stressing a lot as well as expanded distribution. And certainly Tunisiana management here has a history of strong performance in the market.

Palestine. The first full quarter of commercial operations since late last year, that's a great thing to say. Total revenues $US 4 million for Q1 with very skewed ramp up by the way I might add, with a majority of Q1's revenues coming in March, that gives you a feel for growth. The EBITDA obviously negative because of the start up status but showing improvement over Q4 as you would expect. We've reported 164,000 total customers for Q1 but note that a portion of these were acquired during the free on net offer last year to celebrate the launch and this effect also causes the ARPU on total customers to look low but a more normalised ARPU is expected as the impact is deluded in the future periods. And as we discussed before our competitor has had a monopoly for quite a long time and Wataniya comes with an excitement of fresh air, we see this as a good marketing opportunity. In some of the other operations the smaller ones I might add, Q1 shows some good progress in the Maldives, as well as with the wi-tribe WiMax operations.

That's a quick tour around our world and with that, Carson, I'll turn that back over to you.

Carson Wolfer

Thanks, Rick. We can now move to the question and answer period. As we have a limited amount of time and to make sure that as many of you as possible are able to ask your questions, we please ask that you limit yourselves to a maximum of two questions when you have the floor. This will help us ensure that you get the information you need. Operator, will you now please explain to the call participants how to ask questions?

Questions and Answers

Operator

Christian Kern

Christian Kern - *JP Morgan*

Hi there, it's Christian Kern from JP Morgan. Just two questions if I may, the first one is on your guidance, maybe Ajay you can break it up a little bit more between domestic and international contribution. My first feeling of the guidance is that it is actually quite conservative compared to where market expectations are at the moment so I think it would be useful to have a bit more colour underneath it. The second question would be about your strategy and maybe, Rick, you can help me there. Would you agree that the domestic market in Qatar has stabilised now since the entrance of Vodafone Qatar? And secondly on Indonesia would you agree that you are back on the front foot with regards to subscriber acquisitions, but in terms of the quality of the subscribers looking at the output decline that you are more in the middle ground there on the customer quality?

Ajay Bahri

Well, let me take the first question first and I think in terms of guidance we've always given guidance on a one off basis we don't give a switch between domestic and international, but however I would like you to see our performance in Q1 to get a sense of how the trends have gone on and unless something unusual happens we would expect similar trends in future as well.

Rick Seney

First, in terms of Qatar, yes I think the key theme here is, from my perspective the market's beginning to stabilise, it's certainly stabilised a lot from where it was. If you look backwards in time certainly the pricing, most importantly the international pricing has resettled at different levels from where it was before, we've adjusted to that. The Q1 results I think give a pretty good feel for where that heartbeat is and as I noted March was particularly strong. So, I also note that any operator in start up mode is looking to acquire customer base and maybe you're willing to do things in start up mode that aren't logical as you get to be a more mature company. So, we're certainly looking for that to continue to further stabilise but I think the Q1 results give a good heartbeat.

I'd say on Indonesia obviously the ARPU has gone down from where it was before, we're continuing to look for the right balance of all of the above. We have a particular focus on EBITDA and therefore you can see some consistent trending there. It's an interesting market, it has interesting backs and forths, there are image issues. We're very focused on the profitability of the market and that's certainly where I believe the management will give you further guidance as they talk to you in the call itself.

Christian Kern

Thank you very much.

Operator

Maddy Singh

Maddy Singh – *Morgan Stanley*

Hi, a question on Algeria. I just wanted to understand the market dynamics in Algeria. You added two million subscribers in the fourth quarter and in the first quarter the addition has gone down to 244,000 subscribers. I just want to understand has the marketing activity declined substantially in the first quarter or what exactly happened with this big slow down in the subscriber addition?

Rick Seney

Sure and this is very consistent with what we talked about last quarter. Our response was clearly a window of opportunity, we saw that and so we pushed very aggressively a large number of SIMs into the distribution chain last quarter and a lot of those SIMs don't get to be revenue producing by that point. So, that's the answer to your question, in other words that large number of SIMs went out into the distribution chain but it's not yet revenue producing. And you're seeing those now being absorbed in Q1, so you're seeing what looked like there had been growth in Q4 in the customer numbers being realised in Q1 itself. That's the underlying dynamic and that was done by choice because our view was we wanted to be able to flood the market with SIMs at that point and make it easy. We gave substantial point of sale bonuses to entice the full distribution chain to want to move customers away from the primary competitor and over to us.

Maddy Singh

So, should we assume a run back similar to what we saw in Q1 as the normal run back going ahead for the year?

Rick Seney

I'm being admonished here by the folks in the room because I'm not allowed to give guidance, but what I can say obviously is Q4 is unusually high but part of that is being absorbed in Q1, so from that you can probably make a good conclusion.

Maddy Singh

Okay, and if you could give us some guidance on Wataniya business, at least accompanying this, I just wanted to understand is there any separate guidance for Wataniya?

Ajay Bahri

We've not historically given any guidance for Wataniya separately, what we do is we do give guidance on a single basis and like I said the trend in Q1 is clear in seeing how the markets are progressing there. But internally we need to do a separate guidance for Wataniya in any case.

Maddy Singh

Okay, thank you.

Operator

Nemat Choucri

Nemat Choucri – *H C Brokerage*

Hi everyone, this is Nemat Choucri from H C Brokerage, and my question is on Indonesia. If you can elaborate a bit on the competitive landscape there we've seen an 18% quarter on quarter subscriber grab, however a 4% revenue drop, so I would appreciate it if you can elaborate on this and is the performance in Indonesia the reason behind the quarter on quarter drop in consolidated revenue? Thank you.

Rick Seney

Okay, first I'm not trying to avoid the question, in terms of talking about those Q1 results they're a US listed company with Sarbanes-Oxley and all these various things and so we can't talk about information that the management team there has not yet made public. And all they've done is given their headline releases to enable us to do that. So, I'd love to engage you on that but you'll have to wait until you can engage directly with the management. But I will note that one thing I can say is that if you go back and look at all the releases in previous years and the like, one of the things you'll see there is that Q1 is a key seasonally down quarter for the year so you're going to have that norm involved. So, that I can say, I'd love to engage you further but those are my limitations for the moment.

Nemet Choucri

Okay, thank you very much.

Operator

Richard Barker

Richard Barker - *Credit Suisse*

Thank you very much gentlemen. Just a quick one really. On Tunisia can you just tell me a little bit about your relationship with Orascom and specifically if Orascom for whatever reason were looking to be exiting that asset does Wataniya have pre-emption rights over that, right of first refusal for that asset? That's the first question. The second question is going back to Indonesia and the pattern of SIM trends over the quarter do you think that there is a possibility that some proportion of the two million or so of SIMs that you put into the market in Q4 will never actually generate any revenue and maybe we should be factoring that effectively into our churn forecast going forward? I just wondered if you could comment on that, and at the risk of being very cheeky, briefly, can you tell us when the Indosat release is due? Thank you.

Rick Seney

Let's take those in reverse. First I'll turn to my colleagues here, the release date for Indosat earnings etc.

Carson Wolfer

Richard, it's going to be around mid May.

Richard Barker

Thanks Carson.

Rick Seney

And as to the Algeria churn, I think it's a reasonable expectation that when you push that many SIMs into the market you're going to have some reasonable churn off of that and we've assumed that, I mean that was all part of the programme, we knew that but still from an economic perspective it makes a lot of sense for us to have done that anyway, to get the base and start growing and gaining the customers that we have. So, I think it's fair to say that there will be some churn off of that number but we continue to look to be active in taking advantage of the turmoil that exists in that market today. And if you look again, look at the size of the market share that one operator, one dominant operator has been able to maintain over time and look at how small ours is. I'll also say there that the only gain there it's not just the SIM game, the other game is share of wallet and revenue gaining primary SIM status and then moving more and more into the high value customers. So, it's good to focus on SIM, it's good to focus on churn, but also there the level of ARPU that we're able to generate and those more interesting higher end segments are also very much a target. The last question I think was about...

Ajay Bahri

About Tunisia? I think basically the relationship's very good with Orascom we've had with them over the past so many years. Of course when you look at what really is different you will recall that there were some issues but after Qtel has stepped in the relationship has been good. As far as the shareholder rights are concerned going forward these obviously are complementary matters and we can't discuss these matters in public but not concerns in terms of relationship with Orascom.

Richard Barker

So sorry, Ajay, you can't say one way or the other whether if OT wanted to sell that asset you can't tell me whether you would have a right of first refusal on that?

Ajay Bahri

We would be interested in getting a majority stake, we can say that. If there is indeed interest from Orascom to sell but beyond that I think we'll have to see how these things develop. A lot of these questions cannot be simply answered because even rights which are pre-emption rights are not straightforward and they are structured complexly. So, it would be inappropriate to give you a very simple answer to a complex question.

Richard Barker

Okay, thank you.

Operator

Simon Simonian

Simon Simonian - *SHUAA Capital*

Thank you, good afternoon. Most of my questions have been answered, I have two questions. You made an interesting comment on Tunisia, you said that the national roaming agreement of the new operator with your competitor could take time so we should assume that maybe the rollout would be slower at this stage. And the second question on Oman the change in SIM regulation, should we expect a drop in subscribers in Q2? Thank you.

Rick Seney

Okay, let me take the first of those. In Tunisia it's our understanding that the third operator has built some network and it's principally in the major urban area and that they're using national roaming or will use national roaming as a way to fill that out and then cover the country and then back fill over a period of time. Various announcements have been made by them about their rollout times and obviously they speak for themselves. Some of those dates the original announcements have come and gone, but it isn't a certainty that when they launch they will not launch with national roaming, they certainly have the option of launching without that roaming and they may therefore fire up in those urban areas without the benefit of it. So, what I'm saying is that the timing of those two may be disassociated. And then secondly on the Oman question can you say that again, I'm not sure I grasped exactly what you're looking for there?

Simon Simonian

Yes. In the Q4 conference call you told us the regulator has requested as of February to change the SIM validity period from 12 months to six months and you warned us that maybe this could cause a drop in the number of subscribers mainly for the overall market . So, I was just wondering and in terms of this new rule on SIM validity came into effect in February should we see any impact as of Q2? Thank you.

Rick Seney

Understood. A great question and the answer is, you won't see the effect in our numbers because the way it's been implemented is that it's applied prospectively, it's applied going into the future, so it's the new SIMs that in effect have a six month validity rather than a 12 month validity. So, you'll see it this year but you won't start seeing the fall off until later in the year. Those existing ones that have 12 months on them will still continue.

Simon Simonian

Okay, good. Thank you.

Operator

Tatiana Borditskaya

Tatiana Borditskaya - *UBS*

Good afternoon gentlemen, thank you for your presentation, Tatiana Borditskaya from UBS. Two questions if I may. Can you please comment if you have any financial covenants on your debt and secondly can you please comment on recent refinancing actions and its place, Qtel's rating point of view for possible downgrade on the back of the same action in Indosat, even the existence of clause default clauses in Indosat debt? Thank you.

Ajay Bahri

We do obviously have covenants in our financial documents and facility agreements. Q2 levels we are very confidently placed to give them, we've just shown you the net debt to EBITDA numbers which have been trending downwards, it's 2.1 times EBITDA on our debt level. So, yes we have covenants but we don't disclose the level of covenants but we can comment is that the trending up of our covenants has only been positive in the last few quarters, in fact the last couple of years. As far as Indosat is concerned and the refinancing action is concerned, part of the action which the rating agencies have taken is not just related to Qtel, they have been carrying out a review of all the government related entities in the region and you've seen from our release from their side in Abu Dhabi already so this is consistent with what they're doing across the region and we from our side are giving them evidence and support to substantiate the support which the Qatar Government has for Qtel. The recent royalty changes are an evidence of that as well so we would say that not look at the latest comment as an exception but rather than as a [unclear] which [unclear] is following in the region for all government related entities.

Tatiana Borditskaya

All right, thank you.

Operator

Waruna Kumarde

Waruna Kumarde

Hi, good afternoon gentlemen. I have just a couple of questions, the first thing regarding the debt majority profile. You mentioned during the call that what you have given may have changed recently, so could you outline what the latest maturity profile would be? That's the first question. The second question is I was just wondering whether there is a usual depreciation [unclear] which has extended into the first quarter of 2001 and if you could confirm if there was anything like that.

Ajay Bahri

In terms of debt maturity we can probably update the slide and share that with you but on a basis we have shown you a $2 billion maturity in 2011. Now that facility is being refinanced with a facility which has a three year piece for $1.25 billion maturing in three years and $750 million maturing after five years from now. But we can update the slide and give that to you in due course. As far as debt rotation and amortisation is concerned there is no decline compared to the previous year. If you look at the financial statement there is indeed an increase and it is consistent with the investments we have done in a lot of our network and group which reflects on the increase.

Waruna Kumarde

Just to confirm, because my model showed that there could be a decline between the fourth quarter and first quarter but there isn't anything like that, right?

Ajay Bahri

Are you talking about Q1 of last year to Q1 of this year?

Waruna Kumarde

No, Q4 '09 versus Q1 2010.

Ajay Bahri

Okay, let me come back to you on that question, after we can confirm these numbers.

Carson Wolfer

Yes, operator, we can move onto the next question and Ajay will follow up before the call terminates.

Operator

Martin Mabbutt

Martin Mabbutt - *Nomura*

Yes, it's Martin Mabbutt at Nomura, good afternoon. Just two quick questions, firstly you were very helpful in unpicking the margin effect in Kuwait and Oman, I wondered maybe you could say a little bit about Iraq in terms of maybe what the underlying margin is or maybe something about the full year outlook for margin. And secondly, on the Qatar fixed line business can explain to me how you're working with the government in terms of the rollout programme and how that might affect a second licence operator in terms of that programme? What network would there be to build for instance if the government moves ahead with its plans to rollout a national fibre network? Thanks.

Rick Seney

Okay, first let me take the Iraq question. I think forward looking statement I can't make but I'm trying to get at this a different way. The variations I talked about that we're seeing are typically the way that expenses fall within a year which implies that if you were to take a series of quarters and average those EBITDA levels that you would come up with therefore a good understanding of the normalised level of EBITDA. I think that's a summary. But you know that's a very profitable market and I would also add that those EBITDA levels are after a 15% revenue share with the government so the EBITDA levels prior to that obviously were 15% higher, that's a big number. I'd also point out that our biggest competitor there has a revenue share of 18% because of its shareholding structure and the extent of the outside ownership which is not an issue that we have. So, we've got an interesting and advantage there as a result. I think with respect to your second question on the fibre build it's at a relatively preliminary stage in that respect and the discussions over that issue are still developing and still in process, so I think on the call here today I can't give you a good answer to that, but I've made note of that and maybe we can follow up here as that becomes clear since that's a particular item of interest.

Martin Mabbutt

Thanks very much.

Ajay Bahri

I'll get back to the question which was asked earlier on, on the depreciation and the amortisation between the two quarters Q4 and Q1. Q4 and Q1 it's down compared to Q4 and basically a large chunk of that comes from Indosat. Q4 had some depreciation as we've mentioned in the last quarter in Indosat which was a one off piece coming there which to some extent is offset by high depreciation in all operations where we are growing. So, that decrease is due to a one off action in Q4.

Operator

Louna Merhi

Louna Merhi - *Audi Captial*

Hello, hi. This is Louna from NBK Capital. I was just wondering concerning Indosat how do you expect the revenues and bottom lines to grow in the Indonesian market given that the market is overcrowded with other operators? And my second question is about the non recurring gain reported in the first quarter, do you record that above the EBITDA line or below?

Rick Seney

Okay, first let me take the Indonesia question. Obviously we can't give the joint estimates and the guidance would have to come from the management there directly given the dynamics, but I think we can say a couple of things. The top three operators in Indonesia are highly dominant and we can get an update on the numbers from the management team but as I last looked at those numbers the top three operators dominated with about 90% of the global industry revenues. So, on the surface it appears as though there are an awful lot of operators but if you're looking at the competition for the principle spend, the principle areas of profitability the field of competitors it's reasonably less. I think secondly as we've talked about before on some of these calls there has been a history of substantial second and even third SIM penetration in the market, so if you look at the actual and real penetration in the market it still is lower than that we see in many parts of the world. And then on the last item I would indicate that it's also a market where data applications have shown significant popularity and are beginning more and more to drive some of the key economics of the business. So, if you take all those together plus the fact that you've got a growing population you've got an economy now that has a stable political environment within which to build, one that has a relatively low beginning point, one that is underpinned by a substantial level of natural resources. I think from our perspective we view this as a growth market going forward.

Ajay Bahri

Taking the next question on the non recurring revenue, this revenue is a one off item which comes below the EBITDA.

Louna Merhi

Okay, thank you.

Operator

Simon Simonian

Simon Simonian

Thank you. Some follow up questions. For the listing on Wataniya on the Doha Exchange the reason for the delay and a question on the Kuwait operation, I appreciate the explanation that you've got for the revised methodology for the EBITDA but even after taking that into account the EBITDA still seems to be down over year. I wonder if you could give us just some colour on the competitive dynamics with Viva in Kuwait. Thank you.

Ajay Bahri

Let me take the first question. As far as these issues what we are concerned towards, it's [unclear] and therefore [unclear] and the [unclear], we'll have to wait for that to be announced.

Rick Seney

And with respect to Kuwait I think if you look year over year, yes there is some underlying erosion in that EBITDA margin from where it was a year ago. The impact of Viva coming into the market with the then change in the industry were we're no longer getting revenue on the inbound traffic from the fixed, that was just evolving during that period of time. The change was in the market but then the change in calling behaviour where people were realising how cheap it was therefore to call from a fixed line, that took a few months for that behaviour to become fully entrenched. So, from a year ago there has been some erosion in that and of course the key from this time it's the heartbeat would be different from the 41% that's reported because of that issue with the reserves that I discussed so it's somewhat higher than that. But also keep in mind that typically Q1's a little bit soft in that respect.

Simon Simonian

Okay, thank you.

Carson Wolfer

Thank you operator and thank you all for joining us on today's call. If you can please refer to the Qtel investor Relations website for any additional updates or feel free to contact the investor relations team if you need further information. We also look forward to your future participation in our first half 2010 update, the date for which we will announce in the upcoming months. Meanwhile thank you again for your interest in Qtel and have a good day.