Qtel Group Q1 2011 Results Call
29 April 2011

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Operator

Thank you for standing by and welcome to the Qtel Group Q1 results call. At this time all participants are on a listen-only mode. There will be a presentation followed by a question and answer session at which time, if you wish to ask a question, you will need to press *1 on your telephone keypad. I must advise you that this conference is being recorded today, Friday 29th April, 2011. I would now like to hand the conference over to your speaker today, Carson Wolfer. Please go ahead, Sir.

Carson Wolfer – *Qtel Group - IR*

Thanks operator. Hello and welcome. My name is Carson Wolfer and as part of the Qtel Investor Relations Team, thank you for joining us for today's call to discuss Qtel's 2011 Q1 financial results. As part of today's discussion, I'm pleased to introduce Mr Ajay Bahri, Group Chief Financial Officer, and Mr Nick Dent, Qtel Qatar'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, there are a few necessary disclaimer points if you refer to slide number one. In the course of today's discussion we may make some forward looking statements. These will be based on the information available to us as of today, and so you should not assume that in the future we will continue to hold these views. As such, we do not commit to notify you if our views change. We, therefore 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 Bahri - *Qtel Group CFO*

Thank you Carson, and welcome to everyone on the call. Let's begin by turning onto slide number three. The Group have had solid and consistent financial results. When comparing year-on-year, revenue and EBITDA both have increased at 17% and net profit attributable to Qtel's shareholders have increased 16%. I'll get into more detail regarding this shortly.

As well as our 2011 guidance, we believe these results are a further vote of confidence in our strategy. In terms of our strategy of developing our portfolio and products, we've enhanced this through additional partnerships and agreements announced during the quarter. As you are aware and in addition, the successful acquisition of the consolidating shareholding in Tunisiana to 75% as well as the public listing and secondary trading debut of our operation in Palestine took place in Q1. As a result of that Tunisiana transaction, we now consolidate Tunisiana 100%. In the previous period, the consolidation was 50% because it was a joint venture.

Finally, we report strong operational performance across the Group. The cost efficiency initiative is underway in all major operating companies. As illustrated by our results, our operational strategies continue to deliver across established and growth markets. Performance has been relatively steady in markets with increased competition, and political uncertainty in other markets. So overall we see a balanced portfolio which underpins a strong Group performance. Next slide, please.

Let's take a look at the International performance of the group. We continue to see good performance. As mentioned earlier, the Q1 revenue grew 17% over 2010 Q1 to QAR 7.5 billion. EBITDA similarly increased 17% over the same period, increasing to QAR 3.6 billion. At the same time, the EBITDA margin was relatively steady at 48%. Next slide, please.

Net profit attributable to Qtel shareholders decreased year-on-year by 37% to QAR 762 million. However, net profit needs to be viewed carefully. You'll recall that in Q1 2010 we saw the positive one-off impact from a favourable decision on the royalty regime in Qatar amounting to QAR 554 million. This included the periods of 2007 to 2009. That one-off adjustment increased the profit of the last year's quarter one.

Having said that, when we nominalised net profit for Qtel shareholders in Q1 2011, increased by 16% compared to Q1 2010, which at a nominalised level would be QAR 659 million. I'll get into more detail about the Group's debt profile, but let's look at the Group's net debt and net debt to EBITDA ratios. Net debt stood at QAR 24.9 billion, reasonably stable compared to where we were last year. The gearing is now at 1.84 times and it continues to reduce as a result of our continuing increased EBITDA performance.

I'd like to highlight here that the net profit at an NMTC/Wataniya level. You would have seen the results of Wataniya had a one-off huge gain of US$ 960 million resulting from the acquisition of Tunisiana. This was a one-off, non-cash, accounting gain based on IFRS 3. Now, this gain doesn't apply to Qtel shareholders as it was only for the minorities. The reason for this is that the revaluation of the Tunisiana stake was done at Wataniya level. At the Qtel level the new purchase price was compared with the price which Qtel had paid for an NMTC for its acquisition in 2007 and in that, there was no profit for Qtel shareholders. Therefore the big profit that you see at an NMTC level does not translate to profit for Qtel shareholders. You will see a line item in the Group financials of QAR 1,242 million or 1.2 billion Qatari riyals. All of that flows directly to the minority shareholders. Moving onto the next slide.

In terms of capital expenditure, our investment programme remains on track. From a capital intensity prospective again, we are seeing the impact of a growing top line coupled with a prudent capital investment programme. Next slide, please.

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

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

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

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

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

As Jeremy Sell, the Group Chief Strategy Officer, outlined in detail on the Q4 call, our strategy has remained consistent. In that capacity, Q1 saw us involved in activities such as an increased stake in Tunisiana, Indosat's retirement of loans and the new negotiated facilities, new B2B agreements with strategic businesses, as well as the Qtel Group undertaking partnership agreements in social media. As always, we commit to providing you updates if or when new opportunities reach a point of certainty in their development. Can you please turn to slide number 16.

Next I would like to provide an overview of the operational results in our key markets. As a reminder, I will again refer you to the section of the presentation starting on slide 26, as well as the breakdown by operation workbook. Both provide additional details on each of our operating company, including sequential quarterly results.

Starting with the operations in Qatar Qtel. We have seen a positive performance in the period against continued competitive pressure. Revenue is up on both an annualized and quarterly basis and we have seen solid growth in both fixed line, mobile broadband and IPTV. Revenue accounting is now aligned with the rest of the Group and has benefited in the slight increase in revenue in the period. If you exclude this grossing up, the revenue would be more or less in line with the previous quarter.

EBITDA was positively impacted by the cost efficiency program, with the corresponding increase in EBITDA margins. There are two one-off items affecting it. To highlight one, there was a small revenue of previous period about QAR 10 million and, similarly, something on savings as well, related to the previous period. If you exclude the one-offs, the EBITDA is more or less in line with that we've achieved in previous quarters. During the period we have signed a number of important strategic agreements with a variety of institutions, which we believe will have future material impact. Next slide, please.

We have seen another strong performance in Iraq. Strong revenue and EBITDA performance were underpinned by increased usage and customer growth, with a significant increase in Q1 2011 against Q4 2010.

It's important to remember when comparing EBITDA performance that there was an exception in Q4 2010 with the retroactive payment of an increased spectrum fee being recalled out of about US$ 35 million relating to the last couple of years. EBITDA margins for Q4 2010 were therefore much lower than the normal levels. Q4 to Q1 revenue is higher than Q4 but not significantly, due to some impact on the roaming revenue.

Moving on to the next slide: Indonesia. Indosat held its results conference call earlier this afternoon with the presentation available on their website. I'd like to also highlight that Indosat's results are based on INDOGAPP whereas Qtel results are based on IFRS, and the results in Qatari riyals also take into account the FX impact.

In summary, whilst competitive challenges remain in Q1, cellular revenue and subscriber growth continued. The ongoing transformation of the business continues to proceed at a pace and Q1 saw the launch of the voluntary separation scheme for staff. In line with this there are a number of one-off charges which have impacted EBITDA and the EBITDA margin. In terms of Qatari riyal, there was about a QAR 48 million charge in Q1 for the voluntary separation scheme. Excluding this charge the EBITDA margin would be about 50.5%, more in line with where our expectation is.

Net profit was again influenced by the continuing appreciation of the Indonesian Rupiah. Indosat reduced its debt position in the period, with repayment of certain existing facilities of about US$ 21 million, with a corresponding positive impact of a lower interest cost.

Couple of points I'd like to highlight to you: the ARPU drop from Q4 to Q1 is due to seasonality; Q4 is generally a strong quarter in Indonesia. Overall, no change in competitive dynamics in the market there. The net profit, as I mentioned earlier, has a positive impact because of FX and the Rupiah's appreciation.

Overall, Q4 2010 to Q1 2011 performance we believe is good. If you're comparing the figures to Q1 2010 there was a 5% drop in revenue in local currency. This is a drop ~3.5%, so, overall a positive performance, taking into account seasonality.

Moving onto the next slide: Nawras in Oman. Competitive pressures continue in the pre-paid segment. However, we have seen positive revenue impacts from the fixed services business and the international gateway. As highlighted, EBITDA was positively impacted by a one-off roaming and interconnect benefit in Q1 of 2010. So when we do the comparisons we need to take into account that one-off gain in 2010.

Subscriber numbers are down. This is the result of both the intense competitive dynamics in the pre-paid segment and reclassification of active subscribers in line with the regulatory changes, whereby the period of subscriber inactivity has been reduced from 12 to six months alongside some other measures as well, where subscribers with more than ten SIMs needed to be reduced to maximum of ten. So, overall, because of the regulatory requirements, the customer numbers are down. Two-thirds of the reduction is because of regulatory requirements.

Operational focus on customer retention, loyalty programs and innovation continue now, and one would be able to see the impact of that more in subsequent quarters. A few factors I'd like to highlight. Q4 2010 revenue had an annual impact after grossing up the commissions. So, one needs to take into account when comparing Q4 2010 to Q1 of this year. We made this point on the last call as well. Excluding this one-off adjustment for the whole year, the slight decrease in revenue by about 3% is on account of seasonality with Q4 generally a stronger quarter.

Some points to take into account to review the performance of Nawras is that they're in the initial phase of the fixed line business. As the revenue increases it will start offsetting the initial spend. Also, certain equipment which has come out of warranty has resulted in a slight increase in operating expenses. There had been some outages in Q1 on the operating side, where due to the traffic, equipment had to be routed through alternate more expensive routes. In the press, there has been comments about the bad debts, which is not to be included in this section. That's a one-off provision not related to international operator and roaming related revenue.

So, overall, we believe that the competitive environment has been more intense there. Nawras is taking action, mostly focused on their commercial strategy and looking at customer service excellence. They also have a good brand there and we expect as we go through the year there will be a turnaround in terms of the revenue as well, with the fixed business also adding more revenue going forward.

Moving onto the next slide: Wataniya in Kuwait. A strong quarter in Kuwait, with revenue and subscriber growth and Wataniya gaining market share highlighting our ability to achieve growth in mature as well as growth markets. Customer growth was strong and principally in the pre-paid segment. There has been five consecutive quarters of revenue growth, with revenue in Q1 driven by customer growth and higher one-off revenue coming from handset sales and good number sales.

This in turn supported the EBITDA level with costs remaining in line with previous quarters. In Q1 of 2010 which you'll see, the EBITDA margin was quite low. As we explained earlier, there were some one-off bad debt provisions in Q1 of last year and the improvement you see this year takes into account certain cost efficiencies in marketing and staff costs as well. So, overall, competitive dynamics have been muted. In the corporate segment we have seen the competition increasing. Wataniya will continue to focus on growth market segments, going forward. Next slide please.

Algeria: Nedjma has delivered another excellent performance in the period where we saw substantial increase in revenue and strong EBITDA performance. There has been a reduction in the customer base in Q1 as a result of the ongoing clean-up, as well as the regulatory requirements for customer identification. And there has been a focus by the company on maintaining high value customers. The corporate base customers continue to grow. There have been some regulatory reforms during the period, which have had a positive impact on market stabilisation. These primarily relate to having a limited time to run promotions and not to have continuous promotions with unlimited time.

Some other factors to consider when looking at Q4 2010 to Q1 2011 and the EBITDA percentage drop. Maintenance costs are up on certain equipment, which went out of warranty, and where there were a lot of discounts last year. A focus on marketing efforts continues, which is of course reflected in increased revenue. There has been a positive impact on the net profit as a result of the FX gain, which is partially off-set by higher taxation.

Moving onto the next slide: slide number 21, Tunisiana. Effective Q1 2011, Tunisiana is now fully consolidated. So, the Q1 number is 100% consolidated whereas in previous quarters the number was only 50%. Further to updates during the period, the political events in the quarter had no impact on network infrastructure, but some costs from disruptions to distribution points. We highlighted this in the previous call as well. The wider impact has been on tourism sector, which is a key driver in the Tunisian economy. As yet, there continues to be limited impact from the third operator. Tunisiana maintains its market leadership position.

Certain factors to consider when looking at Q4 2010 to Q1 2011. Now, in Q4 we had a net off of telecom tax from the revenue, which we explained last quarter. That needs to be taken into account.

I will now hand it back to Carson.

Questions and Answers

Carson Wolfer

We can now move to the question and answer session. Can we ask that each of you limit your questions to two part questions to begin with; you're welcome to ask additional questions, subsequently. At this point, operator, can you please explain to the participants the process for asking questions?

Operator

Thank you. We will now begin the question and answer session. If you wish to ask a question please press *1 on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press the # key. Your first question comes from Christian Kern from JP Morgan. Please go ahead.

Christian Kern – *JP Morgan*

Hi everyone, it's Christian Kern from JP Morgan. Two questions, if I may: The first one would be on your guidance on slide eleven. You just reported a quarter of 17% top line growth and about 17% EBITDA growth. So, I was wondering why you are more cautious for the remaining nine months of the year where you have to build in some margin for slowdown in growth?

The second question would be with regards to the M&A situation; I understand you are still looking for potential M&A transactions. One has just settled itself in terms of Zain: is that something you would like to look at again? Is that something which is still on the market? And also your assessment on Syria with regards to a potential of that licence opportunity coming back.

Ajay Bahri

As far as the guidance is concerned. Q1 was definitely inline, but we do take into account in the guidance the potential competitive impact in our markets, as well as the foreign exchange development. As you are aware, figures do get impacted by such movements. So, we've taken that into account when we've given the guidance there.

And on the M&A side, we've given our position on this in the past. As expected overall there was interest in Saudi Arabia on a big picture basis, as part of a footprint, but not on the other assets. So that situation remains unchanged as far as our interests are concerned.

On the Syria side, we expressed our interests and, as you are aware, we were on the shortlisted companies. The process there has been delayed now and we wait to see developments for that.

Nick Dent - *Chief Operating Officer, Qtel Qatar*

On that growth questions, we can give you a more specific example on Qatar. If you take out just the revenue accounting adjustment, our revenue is flat, and so our bottom line growth, which is 9% Q1-on-Q1 and comes mainly from cost reduction. If you look at the pattern of our costs in Q2, Q3 and Q4 of 2010, you will see there are margin improvements we've got that if we continue on this margin a little bit more our annual year-on-year growth will be more like 4% or 5%, rather than the 9% that you see on Q1. So, that gives you an example for Qatar, which is quite a big chunk of the Group.

Christian Kern – *JP Morgan*

Yes, that's very clear. Ajay, would it be possible for you to share your FX forecasts for the rest of the year, which have embedded into your guidance?

Ajay Bahri

We can take that offline. But generally, of course, we look at where the current levels are when we do our planning during the December time frame. And in countries where we've seen movement in the past we factor that in. So we can share country by country with you offline.

Christian Kern – *JP Morgan*

That's very kind. But I do understand you correctly; this is not on constant currency, the guidance?

Ajay Bahri

The guidance is a range.

Operator

Your next question comes from Maddy Singh from Morgan Stanley. Please go ahead.

Maddy Singh – *Morgan Stanley*

Yes, hi. Two questions, basically both on Tunisia. Please can you explain the revenue growth, especially in terms of, it's comparable to last quarter, when I look at the comparable number it is 14% decline. I was just wondering if there was any tax adjustment in this quarter as well as you had in the fourth quarter, or it was just a 14% decline.

Ajay Bahri

Let me do the first question first. The tax net off that you see in Q4 of last year was something which was done for the full year in Q4. Going forward, there is a net tax in the results.

And the decline which has happened is primarily because of the free minutes which were given, which I referred to in the call earlier, and that's because of the political situation in the country and not because of underlying dynamics.

Maddy Singh – *Morgan Stanley*

Have you continued with free minutes in the second quarter as well?

Ajay Bahri

Due to the political activity and people can coming out to buy vouchers, that situation is not there anymore now. So that's not the case now.

Maddy Singh – *Morgan Stanley*

For the Wataniya income statement, if you look at the depreciation, it is about 37 to 38 million Kuwaiti dinar, which is quite high compared to the usual run rate. Is there any one-off portion in that? Also what's the run rate we should expect for future quarters?

Ajay Bahri

We are not in a position to give you an exact run rate for future quarters. What we can say is that there is a decline in quarter one. In terms of Qatari riyals, one could say about QAR 60 million approximately, or about US$ 17 or 18 million resulting from these free minutes, and that of course is not expected to be repeated.

However, because of the impact on tourism and roaming, there would be some impact compared to previous years. Roaming typically would be 5% of revenue in Q3 so some decline there could happen. But like I said there's reliance on the overall economy as well, which is to a large extent is dependent on tourism. So, cutbacks from corporates could be possible. But we're not in a position to actually give firm guidance on that.

Maddy Singh – *Morgan Stanley*

Second question is on the depreciation expense in Wataniya's income statement. You say the depreciation expense in Wataniya's income statement is about KWD 38 million for first quarter, and if you compare that with last year or even the fourth quarter the run rate looks quite high compared to previous quarters. Even after adjusting for the acquisition of Tunisia and including 100% of the depreciation from Tunisiana. So, can you explain the moving parts in the depreciation of Wataniya income statement?

Ajay Bahri

Sure, definitely. I think the biggest impact, like you said, is because of Tunisiana, which is 100% consolidated now. That's the big piece of the variance. In addition to that we continue to grow in Algeria. As you can see, it's substantial growth in revenues, in which, to some extent, of course is offset by high depreciation because of network expansion. Palestine as well is on a growth trajectory right now, so you will see high depreciation levels in Palestine as well. If we look at Kuwait, the Maldives and Tunisia, they're relatively stable on depreciation, no major impact in this situation.

Maddy Singh – *Morgan Stanley*

There is no one off for depreciation, right?

Ajay Bahri

No, there is no one off deprecation.

Operator

Thank you. Once again, if you wish to ask a question, please press *1 on your telephone keypad. Your next question comes from Pritish Devassy from HSBC, please go ahead. Pritish Devassy, your line is now open.

Pritish Devassy – *HSBC*

Hi. Can you tell me about the pricing environment? How is it going to be in second quarter? Is there any room for further cuts in the pricing?

Ajay Bahri

Which country are you referring to... Qatar?

Pritish Devassy – *HSBC*

Qatar, yes.

Nick Dent

I mean, I think if you look at Q4 versus Q1 you'll see that there is an increase in revenue. Part of that is from the accounting adjustment but the other part of that is due to, I would say, a more favourable environment for pricing within Q1. We've always maintained that we do not drive down prices and we've probably said that. However, we have to be competitive.

Until now, you know, our feeling is that the market has more or less stabilised but we've found a stable position. But Vodafone could do anything, moving forwards, and that remains to be seen. And indeed we haven't seen their Q4, which are our Q1 results yet. So, difficult to make any predictions moving forwards on that, other than that we focus on value, we focus on customer retention and we focus on being competitive on a segmented basis and we'll continue to do that.

Pritish Devassy – *HSBC*

Okay, without these accounting adjustments what does the number come out to be? Right now the ARPU is QAR 138.7, right? So, without these accounting adjustments what do you think the number should be?

Nick Dent

That will be the number moving forwards and it's more we were reporting net revenues in a number of areas such as content and roaming and now we're reporting the gross revenue. And that number is now consistent with the policy for the other countries within the group, and I believe it's more comparable with what Vodafone also do here as well. Although you'll have to ask them on their accounting policies. If you look at the graph that we've given you for the Qatar operation, we've gone from Q4 normalised which would be QAR 134, on a graph basis we're now at QAR 138 in Q1 2011.

Pritish Devassy – *HSBC*

Okay, and so far in the past four months you haven't seen any price cuts, right?

Nick Dent

In the past two months there have been a number of promotions that have been going on in the market on the international side of it, but nothing more aggressive than before, just different things in different ways. Vodafone have put up their local prices, which hasn't come into effect yet but they've announced that. We had actually raised our local prices a few months beforehand.

Pritish Devassy – *HSBC*

Okay, thanks a lot.

Operator

Thank you. There are no further questions at this time, please continue.

Carson Wolfer

Thanks operator, and thank you all for joining today's call. Please refer to the Qtel Investor Relations website for additional updates, or feel free to contact the Investor Relations Team if you need further information. We look forward to your future participation in our Q2 2011 update the date for which we will announce in July. Meanwhile, thank you again for your interest in Qtel and have a good day.

Operator

Thank you, that does conclude our conference for today, thank you for participating, you may all disconnect.