Qtel Group FY 2011 Results Call
5 March 2012

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- Network expansion
- Performance of our network and equipment
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Although we try to accurately reflect speeches delivered; the actual speech as it was delivered may deviate from the script made available.

Operator

Thank you for standing by, and welcome to the Qtel Group Q4 2011 and Full Year Results Conference Call. At this time, all participants are in 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 star, one on your telephone. I would now like to hand the conference over to your speaker today, Carson Wolfer.

Carson Wolfer - Qtel Group - IR

Thanks operator, hello and welcome, and from the Qtel Investor Relations team, thank you, that's for today's call to discuss Qtel's 2011 full year financial results. As part of today's discussion, I am pleased to introduced Mr Ajay Bahri, Chief Financial Officer of the Qtel Group, and Mr Jeremy Sell, Chief Strategy Officer for the Qtel Group.

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 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 news 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 Bhari – Qtel, Chief Financial Officer

Thank you Carson, and welcome to everyone on the call. Now let's begin by turning to slide number four, that gives you the highlights of the group performance for the year. Firstly, we've seen solid and consistent financial results, when comparing year-on-year, revenue increased 16%, EBITDA was up 18%, and the normalised net profit attributable to Qtel shareholders was up 11.6%.

Secondly, operational performance remained strong, and I will get into more specific details around individual companies shortly. Thirdly, generally we'll speak in more detail about the introduction of our new group strategy that will focus on customer experience and broadband data, internal capability development and new growth opportunities. And finally, regarding our just-announced dividend, bonus shares and rights issue, I will discuss in detail after a review of our 2011 financial results.

Next slide please; let's immediately look at the financial performance of the group. 2011 was a successful year for the Qtel Group and, as mentioned earlier, consolidated revenue for 2011 grew 16% over 2010, to reach QAR 31.8 billion. EBITDA also increased by 18.7% from 2010, increasing to 14.8 billion. The EBITDA margin slightly improved to 47%.

Next slide please, normalised net profit attributable to Qtel shareholders increased year-on-year by about 12%, reaching QAR 2, 606 million. I will get into more details about the Qtel Group debt profile, but let's look at the group's net debt, and net debt EBITDA ratio. As you can see, the net debt stands at QAR 27.3 billion. This is after taking into account cash of about 21.2 billion, which is available with the group. The gearing has remained constant at about 1.88 times EBITDA.

Next slide please; from a cash flow perspective, our combined operations continue to generate increasing levels of cash. In terms of capital expenditure, the investment programmes across the group remain on track. You do see the capital expenditure on the slide; what this doesn't show is the capital commitment, and we have almost QAR 2.3 billion of capital commitment outstanding, which is taking into account our territory forecast which was given in the beginning of the year.

As you have read our earnings release that went out yesterday, the Qtel Board of Directors has recommended to the general assembly a distribution of cash dividend of 30% as well as bonus of 30%.

Next slide please, this slide shows you the total group debt break down. If you look at where the Qtel group debt is held, Qtel continues to hold the majority of the group debt, as a result of GMTN Programme and the bonds that we issued, followed by Indonesia, which holds about 21% of the group debt. The balance remains split primarily amongst Algeria and Oman. I would also like to mention that in February all rating agencies reaffirmed the Qtel ratings and outlooks.

Next slide please, this shows the debt profile at Qtel Q.S.C. level. As previously mentioned proceeds from our GMTN programme have been earmarked for the large facility due in August of this year. This is the $3 billion five year facility, which will be repaid from the cash in hand. Our medium term requirements are therefore accounted for, and as a result we do not have any requirements for additional financing at this time. Just a quick reference to the net debt; you'll see that the net debt for 2011 has indeed gone up compared to 2010. The major reason is two issues.

We've alluded to both of these in the earlier calls as well; we have repaid almost QAR 2.8 billion to the government in quarter four. This was sitting in our accounts payable to the government and most of this was related to royalty payments, and partly to the dividend which the government had not taken from us as part of their support to us. And the second item was the acquisition of Tunisiana which happened in January of 2010, which cost us over $600 million. So because of these two items, we can see that the net debt on a total basis has gone up.

Moving onto the next slide, as far as subscribers are concerned with Qtel, reports good healthy growth. Key growth markets such as Iraq, Indonesia, Algeria also grew when compared to last year.

Next slide please; in this chart you can see a recap of our financial performance for 2011. As I mentioned at the start of today's call, the full year 2011 results have built on our nine month performance with solid financial results, supported by balanced operational performance across the group.

When we compare our actual performance to our 2011 annual guidance, which we issued in April of last year, we see that we have been successful in achieving the targets we set out. In terms of 2012 annual guidance, there were a couple of exchange requirements we will look to provide you an update in conjunction with the Q1 results call, scheduled for late April.

Next slide please, as you're aware, there been an announcement in the earnings release that the plan to increase other authorised capital from two billion to five billion. This takes into account the bonus shares which are being issued at 30%, as well as the rights issued, which follows the bonus issue.

The cash dividend of 30% has been declared, as well as bonus shares of 30%, as I mentioned earlier. The rights issue after the bonus issue is 40%, with two shares for every five shares held at a price of 75, and this should result in the capital in-flow of approximately $1.9 billion. And we believe that this capital structure prepares Qtel Group for its new strategy in growth.

Next slide please, now the question which comes with the timing of doing the rights issue right now, and what is driving this decision. As you're aware, we have done a comprehensive review of the strategy of the group, and on the capital markets day, Jeremy had shared the details of that review, and he'll get into more detail in due course. As part of our overall review, and as I'd alluded to at the capital markets day, we will be looking at the capital structure of the company as well.

You know that the financial policy of the company in the past has been to target a net debt to EBITDA range of 2.5 to 3 times. Now, this was consistent with our initial strategy, as well as looking at the capital market, the debt capital markets and the banker markets. But as the markets have changed over the last few years, we thought it was prudent to re-look at our financial policy and the target leverage that we have for the group. We believe that a 1.5 to 2.5 is a more appropriate target level, given the current profile of the company, and if you've seen some of the reports from the rating agencies, they've consistently highlighted their concern on the high target debt leverage level to which was in the earlier financial policy. So considering the capital markets situation, also taking into account the concerns on the credit rating side as well as also looking at the absolute amount of debt that the company now holds, the financial policy has been revised to a more conservative level of 1.5 to 2.5 times net debt to EBITDA.

Another issue which is actually an outcome of the rights issue and the bonus issue is the improved liquidity. That doesn't drive the decision obviously, but it does help in improving the liquidity of the stock which has been a concern which has been expressed by all the analysts as well as we internally recognise it. And this would be, hopefully, a positive outcome as a result of the capital structure decision.

Now, in terms of the actual rights issue and the timing of that, in the past we've talked about event-driven possibility of looking at capital structure, and although as a reactive strategy that would be appropriate, but having re-looked at the long term strategy of the company, and not just the capital structure, the complete strategy was re-looked and refined. It was considered more appropriate to look at doing the capital structure in a strategic way, rather than on a reactive way.

And taking that into account, reaching the lower levels of the new target was considered an appropriate level of the net debt to position the company for future growth, not only organically, but also inorganically. You will be hearing more details about the strategy of the company from Jeremy, so let me actually hand it over to Jeremy.

Jeremy Sell – Qtel Group Chief Strategy Officer

Thanks Ajay, I'm going to go straight to slide 15, and for the first five minutes of what I'm going to say, I'm going to talk about our new Drive strategy. Now, some of you have heard of this in January, but I think it's worth stressing the major elements of that again, not only for those of who haven't heard it, but also for how it links in to our new capital structure.

Since 2006, we've had a vision, and it's a pretty good one, to be amongst the top 20 communication companies in 2020. And while that was good enough for us to make a start, it wasn't good enough and specific enough to link into the operational strategies of our various operations, and we needed to refine that. We also needed to refine it in the face of changing market conditions, and this we did, and we launched Drive in January 2012.

Slide 16 please. We did that in the knowledge that the targets we set ourselves in 2006, for 2010, were comfortably exceeded. We set ourselves the target of 70 million customers; we got 74. We said we'd be in 15 markets, we were in 17. We had 7.4 billion in revenues from a target of 7, and our EBITDA was 3.4 from a target of 2.8, and whilst that was okay as far as it went, it didn't address the fundamental industry changes that were going on, and that needed to be done, so please on 17.

I've summarised this; there was a lot of work done behind this, both internally and with the external advisors, but growth is slowing worldwide, even in what were traditionally growth markets. New entrants and increasing competition came faster and harder than we thought, prices are declining more rapidly than we thought, in some markets, and we've only been partially able to monetise the base explosion. New innovations, Fibre and the like, are threatening traditional revenues. This is pretty much the same for every telco, and like every telco, we needed to change our operations and our modus operandi, and the way we looked at the markets. And we do see usage continuing to grow. We are beginning to exploit that more. We're seeing consumers in all our markets, including some of the most developing, even 2G markets, spending more time and money on TMT services, Smart Phones are coming down in price, and are proven to have a much higher ARPU. And our new growth is beginning to show promise, so we know we've got a tremendous opportunity, we're fairly comfortable in the way we're going and the model we chose to exploit that best, slide 18, was the new Drive strategy.

We broke it into three areas; we needed to differentiate on customer experience; we decided not to differentiate on cost, we decided not to differentiate necessarily on innovation, but to go on customer experience to get much closer to them in every market, prior to setting some standards for ourselves, if you like, some SLA's across every market. So that we measure up; and that will be reflected in the KPI's we've set ourselves every year from now until 2016.

At the same time, we wanted to strengthen our foundations. We are beginning to work much more smartly, and better together. We've set up a number of group institutions to manage that process, not least the forum structure. We have an ongoing productivity drive that actually started at the beginning of 2010, under Ajay's auspices. And we have expanded that, not just from looking at optimising costs, but to sweating our assets more, and that has cumulated in the sale of 2,500 towers in Indosat, which we believe is good for us. We think it's going to add value to the group, and where we'll be looking to network share and optimise our asset base in every operation within the group where it makes sense.

We'd also like to increase our scale and profitability of mobile data, and so one of our major initiatives for 2012 or going forward, is to make money out of this. We are looking very keenly at what's going on, particularly in Europe and the States, and the way they're moving away from all-you-can-eat packages to more structured and tiered levels.

At the same time, we do need to invest in new growth, not only by going to new markets, but by looking at the existing markets where we aren't so strong. We have not traditionally been strong outside of Qatar in B2B services. We have a limited nascent business in Oman, in Enterprise or B2B, and we've got an IT and Fixed Business in Indosat, but that's pretty much it.

We believe that in all our markets, there is a substantial opportunity to grow into these, either through organic growth, starting from the bottom, or by limited and targeted acquisition. I'll talk more about our acquisition strategy in a while.

Secondly, we've become believers that fibre is not only desirable, but potentially necessary in many of our built-up areas, not just as a product in its own right, providing residential and business broadband, but also as a way of helping us manage the tremendous data traffic that we're seeing over our wireless networks.

In parallel to this, we are going to dip our toe and explore new opportunities there. We've narrowed these down to three major buckets; TV, whether it's over-the-top, or provided by our own fibre, finance and that includes mobile money and remittances and mobile and fixed health products.

Let's move forward to slide 19. We have a proven disciplined investment focus, and we will keep that. I'll go over our track record in just a while and I urge you to judge us by it, as you have done in the past and going forward.

Let's just talk about how we've refined our 2006 strategy. Our geographic focus, the target performance and the risk profile, are largely unchanged since 2006. We'll still focus on the MENA region, on South East Asia, and we have no plans currently to look to sub-Saharan Africa, Latin America or globally dispersed businesses.

For target performance, we still are looking for deals with substantial post-deal benefits, or a strong player with a strong dividend flow. We are less interested and indeed less able to target turnaround businesses and we'll shy away from those.

And the risk; we think political and financial risk, we are in the medium camp, medium-to-low, we feel comfortable with country risk in some of our territories and have proven that I think we're reasonably nimble in dealing with it. And again, judge us on our record, particularly where we've been able to negotiate our way through the Arab Spring.

Our model is largely unchanged. We did take on some minorities before that worked well, originally via AMH. We were a minority, we still are a minority in AMH, but that gave us access into Indosat. In Asiacell, we're still a minority there, but we reap the rewards of that, and it's perhaps our best-performing asset.

Let me talk about things that have changed slightly. In terms of size, we will not be looking at small acquisitions going forward, unless there is a compelling strategic or technical reason to do that. And the reason is quite simply, if they don't move the needle, it's not really worth our efforts. That's not a surprising conclusion to come to, and many have come to that before. In terms of sector, we will continue to be primarily a mobile and a mobile and fixed player, but increasingly, we will be looking to develop and diversify away from pure telephony revenues, either through Enterprise, or through accessing fibre, and getting some service revenues off that.

However, from now until 2016, we do see the lion's share of our revenues continuing to come from mobile and fixed telephony and there's no fundamental change to that formula.

In terms of our objectives, if we can turn to slide 20, we've now put flesh on the bones of the 2020 strategy and taken a shorter target of 2016, and between now and 2016, each of the seven objectives are not only milestoned each year, but are aligned to objectives that mirror them in each of our operations. They're four financial metrics, three strategic metrics, and we are all, from Dr Nasser , down through his entire senior management team, heavily incentivised to deliver these.

You'll notice that the first two are about shareholder returns. We will deliver above average shareholder returns, TRS, that's a mixture of share price increase and dividends, going forward. The increase on capital we are going to measure using a return on capital employed metric. Sustain EBITDA margins, and those are yet to be set, and increase the growing revenue. We've moved away from number of countries, or number of customers as a meaningful metric.

In terms of the strategic metrics, in each territory, we will look to lead the customer experience, and we're going to use a net-promoter score to do that, and we aspire, by 2016, to be first or first equal in each territory. We will strive to grow non-mobile revenue share in each territory and that's measured on an annual basis, and improve employee engagement, which, for the first time, we measured across the group in 2011.

Let me talk a little bit now about returns and capital, and we need to decouple the longer term capital structuring debate from discussions of short term M&A tactics. There's no conflict in our minds, between having the optimal capital structure, and also maximising returns in the medium to long term, and by that, I mean between now and 2016. We're not measuring ROC or returns on shareholder capital quarterly, but we're looking annually, over two years and three years.

We'll continue to invest in growth, and we need comfort that we have the best possible capital structure to do that, and I now believe that's going to be in place. There's no movement away from financial metrics number one and two on slide 20. We are still committed to those, as we were in January 2012, when we announced our Drive strategy.

Since our strategy is largely unchanged since 2006, we have looked very hard every year, throughout 2010 and 2011, at a variety of opportunities to invest in. We have a very simple matrix that we put on every opportunity; it has to fit strategically, it has to fit operationally and it has to fit financially. We didn't find much to invest in, in those two years, it's true we increased our stake in Tunisiana and we sold some towers in Indonesia, but apart from that, we couldn't find opportunities, and we are always looking at 20 or 30 at any one time that worked for us. And if that continues to be the case in 2012 or further, we will continue not to do anything.

I need to emphasise this that we're not under government or board or any other pressure, to do anything except fulfil our Drive Targets for 2016. And so to give you comfort on that, I'd like to ask you to judge us by our record. In 2007 we did Wataniya, and we were a little bit criticised, because the price was rich for the time. However, it's now bearing fruit, as we said it would over a medium time horizon. Algeria and Tunisia are going well; Palestine, which was in big trouble when we acquired it, had a very successful float in the Palestinian stock market, and continues to lead the region. And Kuwait continues to gain market share and value in an increasingly competitive marketplace. In 2008 we entered the Iraqi market, and it's been one of our best-performing assets, and let's remind ourselves, we got that opportunity by investing, firstly, in Wataniya. In 2008 and then further in 2009, we invested in Indosat, and a turnaround is now underway. We've got new management, new direction, and some positive results beginning to come out of that asset.

In addition, we saw the opportunity to monetise some assets that we didn't consider core, and we'll continue that trend, continuing to return funds to shareholders through increased dividends going forward. So with that, and before we do questions, I'm going to hand back to Ajay to go through the operations with you.

Ajay Bahri – Qtel Group Chief Financial Officer

Oh thanks Jeremy, I think if you turn to slide number 22, we would like to provide an overview of the operational results in our key markets. As a reminder, I would again refer you to the section on the presentation starting from slide 30, a relevant breakdown by operational work book both provides additional details on each operating company, including sequential quarterly results.

Starting with our operations in Qatar – Qtel. Revenue and EBITDA momentum continues when we compare year on year with normalised EBITDA margins remaining stable. On an annualised basis, pre-paid mobile, broadband and fixed segments performed strongly.

Q4 in particular saw strong performance in wire-line revenue, due to increasing corporate revenue resulting from leased lines and VPN etcetera.

On the mobile side, revenue increased due to lower discounts in Q4, lower promotional activities, offset by lower roaming revenues due to seasonality. Costs also increased as a result of the first full quarter of salary increases, which I referred in quarter three, as well as higher focus on marketing in quarter four. Next slide please.

Slide number 23; we move onto Asiacell. Another strong revenue performance, with increased subscriber acquisitions. Subscribers have reached almost nine million now, and the revenue has continued to increase, with higher international usage and on-net usage. EBITDA performance was positively impacted by both high revenue and a positive one-off spectrum fee reversal of QAR 80 million, which related to the last three years. This has resulted from a better understanding from the government side of how the spectrum fee is to be calculated. The provisions were made on a consolidated basis by the management, and once they got a determination from the regulatory body, they reversed the excess provision.

In addition, in Q4, the marketing spend was a little lower than previous quarters, so you'll see an improved performance and EBITDA compared to Q3. Q3 also had a one-off provision for a receivable from a local bank which I had talked about in the last quarter. So if you take off the one-off items in Q3 and Q4, we do still see EBITDA growth of 16% from almost QAR 775 million to QAR 895 million.

The IPO process for the company is still ongoing and as it develops further, we will give you more details of that.

Next slide please. Indonesia. Well Indosat did hold its results conference call earlier today and the presentation is available on their website. In line with the overall moderation of market growth, there has been increase in pricing pressures in the period. Q4 revenue is lower due to seasonality. Q3 is the Ramadan months where you do see a lot of high revenue.

In addition to that, there has been an impact of foreign exchange as well, so in Qatar Riyal terms the impact is a little larger than in local currency. Indosat recorded growth in revenue for the full year as a result of an increase in subscribers, now over 51 million, growing cellular revenue and also an increase in non-cellular revenue, especially in the corporate business.

EBITDA was impacted due to higher operating costs, which includes the network maintenance costs, as the result of a larger network, as well as the voluntary separation scheme, under which almost 1,000 staff were let go. We've talked about this in previous quarters.

The net profit for quarter four specifically, was impacted by FX losses and derivatives to the tune of almost QAR130 million of quarter on quarter movement. Post-period, Indosat announced a sale and lease back agreement for their 2,500 towers, you're all aware of that and Jeremy referred to it earlier. They have positive development there and revenue's been fine and the closing process is ongoing right now.

I understand that on the call with Indosat there was a question about Qtel's view on Indosat and whether it's a long term investment. I want to rule out any rumours or any concerns which worry anyone that Qtel is a long term and strategic investor in Indosat and that's clear from our overall strategy of growth as well as our focus on that region, as Jeremy mentioned to you earlier.

Moving on to slide number 25; Nawras announced its preliminary financial results on January 13th. Nawras will have its own conference call tomorrow and the details are on their website. At a high level, the revenue continued to grow in Q4 driven by higher boosted revenue with increased data and voice usage in fixed services. This was partially offset by lower incoming revenue from international terminations.

The Q4 EBITDA was impacted by higher OPEX resulting from higher marketing spend in Q4 to acquire further market share as well as certain year-end provisions. Total subscriber base was down on an annualised basis as a result of reclassification of active subscribers in line with regulatory changes and increased competition. As a result of this, the cellular subscribers have been flat in Q4 compared to Q3. Next slide please.

Our operation in Kuwait continues to do well. Revenue growth on an annualised basis was strong, driven by successful promotions, higher data revenue and an ongoing focus on higher value market segments. The Q4 was impacted by lower roaming revenue due to seasonality; this was offset by higher data revenue. Also, as we talked about in previous quarters, there was handset revenue coming in Q3 which is not as high in Q4, which has impacted the total revenue in Q4.

One does see increased competitive dynamics in the market now and the company continues to focus on customer service and customer retention. EBITDA on a yearly basis grew strongly despite the first full quarter of the increase in the license fee. This is the licence fee on the total numbers allocated to the company compared to the previous profit where this was paid only for the fourth tier numbers. The whole impact of that was approximately 2.5% to 3% of the EBITDA margin. The company has maintained the EBITDA margin compared to last year despite this unexpected impact.

The Q4 Net Profit for Qatar, because it does consolidate all the operations, was impacted by a provision taken for the impairment of the investment in Saudi Arabia; this is the Bravo investment. As we're all aware the performance of this company has not been good, it's a BOT agreement on iDEN technology and after reviewing the performance for 2011 and looking at the business plan it was considered prudent to take a provision of about $35 million for this investment. Next slide please.

Nedjma in Algeria maintained strong performance for the full year in terms of both revenue and EBITDA. As you can see the revenue was up 33% and a similar increase in EBITDA as well. The clean-up of the subscriber base has substantially been completed now; you don't see a dramatic increase in subscribers because of this clean-up. The ARPU levels have remained stable and focus remains on higher end pre-paid customer acquisition and retention.

The Q4 revenue's up almost 3% in line with the subscriber growth. We're still waiting for the details from the Government regarding the 3G license process and as we get more details we'll let you know about it.

As far as the EBITDA margin in Q4 is concerned it was impacted by high promotional activity in Q4, including more subscriber acquisition costs which includes handsets as well. Next slide please.

Tunisiana, finally, is the last one I'll discuss in detail. Throughout the course of the year Tunisiana has successfully adapted to an evolving operating environment post the revolution. Despite lower tourism-based revenues there has been a significant increase in both international and roaming revenues as a result of increased international traffic from Libya, Europe and the DCC. In addition a strong focus on high end customer acquisition has delivered strong annualised increase in revenue and EBITDA.

The Q4 revenue was impacted by seasonality, the summer months are normally much higher compared to winter months, and also there's an impact of foreign exchange of about 4% which in the Qatar Riyal numbers, you can see that there. As you're aware the 3G and fixed license bid process is ongoing and the result of that, of course, will be known in due course.

Thank you and I'd like to hand this back to Carson now.

Carson Wolfer – Qtel Group – IR

Thanks Ajay. We can now move to the question and answer session. Operator, will you please now explain to the participants how the process works?

Questions and Answers

Operator

Thank you. We will now begin the question and answer session. If you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel that request please press the hash key. Once again, that's star one to ask a question.

Your first question comes from the line of Christian Kern of JP Morgan. Please go ahead.

Christian Kern – JP Morgan – Head of MENA Equity Research

Hello, it's Christian Kern from JP Morgan. Three questions if I may? The first one is; I was interested if you have had a chance to more clearly define the underlying financial targets for the working groups which are supposed to deliver on the Drive strategy, and that would be a follow-up from the investor day earlier this year.

The second question would be with regards to the timing of the bonus share issue and the rights issue so that we could see what the share price impact would be at the respective dates. That would be very helpful if that has been decided yet and if there's been any underwriting commitment of the Qatari Government as your majority shareholder at this point?

The third question would be, based on our initial calculations on controlled free cash flow, which I would exclude Iraq, the new capital structure does allow not really much more than to do the increase in Asiacell and in Tunisiana, which you touched on earlier. That would actually just leave even maybe just a little bit of room to do 3G and LTE licenses but it doesn't seem that it really resolves it for what Jeremy talked about, which would be the bigger transactions. I was wondering if we should expect another liquidity event as and when such a transaction might be announced? Thank you so much.

Jeremy Sell - Qtel Group – Chief Strategy Officer

Christian, thanks, very good questions, as always, and thank you for your note this morning. Underlying financial targets; yes, we had some of them back and we didn't find them satisfactory so we've asked the guys to go away. We will be taking those to the Board at the end of March. What I think you're referring to is what are our targets for B2B, what are our targets for cost savings, what are out targets for network sharing, etc, for the various work streams within the drive strategy and I think we'll have more to say on that next time we speak when we'll have clarity on the specific targets across the board. At the moment we have some, not all, and so we haven't talked about them in this session.

Ajay Bahri – Qtel Group – CFO

Okay, let me take your second question on the bonus issue. Normally the bonus issue happens at the time of the General Assembly when the dividend is approved and the bonus issue is approved by the General Assembly, which is 25th March. The rights issue timing is still subject to, of course, approval of the regulatory authorities and the exact timing of that will be known in due course. As that becomes clear we will let you know when the rights will happen. Then of course, the decision of the Board has been taken on the rights issue, which is represented by all the majority shareholders as well as some other key shareholders, so the support of the majority shareholder is implicit in the decision for the rights.

As far as the free cash flow is concerned I think your observation is correct in terms of some of the examples of acquisitions that you've talked about, Tunisiana and Asiacell for example, which may or may not happen as it's not absolutely clear if and when these will indeed happen. That's why, if you look at the decision to do a capital structure change, it is appropriate in terms of timing and if a new acquisition does happen we're going to have to take into account the potential EBITDA which comes into the group with the new acquisition. Without factoring in the EBITDA of an acquired company and its debt structure it probably is difficult to estimate how a new acquisition will impact us.

Christian Kern – JP Morgan – Head of MENA Equity Research

That's very helpful. Can I just follow up on the commitment from the majority shareholders - if minorities won't t take up any rights is there a commitment from the majority shareholders to take those rights up or is that down to the minorities? In other words is it a fully underwritten rights issue by the Government?

Ajay Bahri – Qtel Group – CFO

There is no formal underwriting of the rights issue. We have done the rights issue in the past as well and there is no formal underwriting.

Christian Kern – JP Morgan – Head of MENA Equity Research

Just to complete the round on that; I assume the rights will not be traded, is that the right assumption?

Ajay Bahri – Qtel Group – CFO

That's an understanding at the stock market, Qatar Exchange as well.

Carson Wolfer – Qtel Group - IR

That's correct Christian.

Christian Kern – JP Morgan – Head of MENA Equity Research

Thank you.

Operator

Thank you. Your next question comes from the line of Tatyana Boroditskaya of UBS. Please go ahead.

Tatiana Boroditskaya – UBS

Good afternoon. Can you please clarify if you have any intentions to raise any debt in the next 12 to 24 months in terms of Eurobonds?

Ajay Bahri – Qtel Group – CFO

As of now we don't intend to raise any debt. We do have a refinancing actually due in August of this year, which I have just referred to in my presentation, but for that refinancing we already have cash with us. We did do our bond in

October of 2010, the proceeds of which should be utilised this time around. As far as normal business is concerned there is no need and no intention to do any bond raising.

Tatiana Boroditskaya – UBS

Thank you.

Operator

Once again, ladies and gentlemen, if you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel that request please press the hash key. Your next question comes from the line of Richard Barker of Credit Suisse. Please go ahead.

Richard Barker – Credit Suisse – Analyst

Yes, thanks very much. Can we just go back to the subject of the rights issue briefly? I'm interested to see that you refer to a Board target range for leverage of 1.5 to 2.5 times Net Debt to EBITDA. You obviously are already well within that on pre-rights issue so I just think maybe you could explain a little better about whether it's really the 1.5 times to 2.5 times which is the constraint that you're working to on that or whether it's another way of looking at cash flow, cash generation, and how that is spread around the group that really is the binding constraint here and, if so, perhaps you could just clarify exactly what that is. That's the first question.

The second question is; in terms of the base year for calculating return on capital and on total shareholder return can you just clarify which year is year zero, if you like, against which all the other years are going to be judged?

Also, just briefly, maybe you could just run through what the calculation of return on capital that you're going to use is going to be. That would be great. Thank you very much.

Ajay Bahri – Qtel Group – CFO

Okay, let me take the first couple of them and then Jeremy can jump in if need be.

As far as the 1.5 to 2.5 is concerned that is a strategic decision to look at the financial policy of the group. It's not driven by the fact of where we are today it is looking at what our initial target was and what concerns we have on the company's capital structure as well as the overall debt. Absolute debt amount also is important now in today's market, probably five years back when liquidity was unlimited one wouldn't worry about the absolute level of debt as well. So we've taken all that into account and based on that the management recommendation went to the Board of looking at the gross net debt to EBITDA.

Of course when we are looking at the debt loans we do look at the proportionate net debt to EBITDA as well. We also look at the cash flow upstreaming that we do at Qtel stand-alone levels. These are all additional constraints which are looked at when you're looking at any strategic decision making, whether it is in terms of acquisitions or looking at the minority buy out or any other decisions like that. You're right that the other factors, on a proportionate basis, are looked at but the overall guidance is based on a consolidated net debt to EBITDA.

I think your second question was regarding return on capital employed and some of the other targets, how will they be looked at in terms of total shareholder returns. If the performance is being looked per year one then it looks at the numbers at year zero but if you're looking at a five year performance, for example, in 2016, then you're looking at year zero to year five. It is why reference to which period we're looking at in terms of performance there. The return on capital employed is, of course, looking at the total capital employed, including the debt which is employed, and looking at the earnings before the charges for such debt which is being trespassed.

Richard Barker – Credit Suisse – Analyst

Okay, thanks Ajay but can I come back to you on each of those because I think you haven't totally answered my question?

In terms of the base year, is year zero for looking at the improvement in shareholder return going to be 2011, is it going to be 2012? That's the key thing.

Secondly, in terms of the calculation of return on capital employed is that a book measure of capital employed or are you adjusting things for market capitalisations there?

Finally, I guess I just wanted to understand a little bit more. What you said about there are lots of other factors being taken into account in terms of toning the optimal capital structure, as far as I can see certainly the 1.5 times to 2.5 times is not a binding constraint on you, there are obviously other constraints that are involved. Basically you could comfortably be in that range without a capital increase at all. I suppose the bigger question is precisely what are the specific issues that you are envisaging? Taking into account, as you say that you may well be acquiring more EBITDA, specifically what are the investment opportunities which you see are likely to put further strain on the balance sheet going forward? I just wondered if you could enumerate them and hopefully quantify them as well please.

Ajay Bahri – Qtel Group – CFO

Okay, let me take your questions in the order in which they came. In terms of measuring the targets when we're looking at 2012 performance year zero is 2011 end. We look at where we are at the end of 2011 and then we look at 2012 performance. Similarly some of these metrics are long term metrics, like Jeremy's also pointed out, so total shareholder return and return on capital employed are looked at definitely on a yearly basis but also on a two year and a three year basis as well. These are medium term objectives and not just annual. The annual ones, of course, are built to the medium term objectives.

The return on capital employed; I think your question was the exact definition of that. We can take it offline with you in terms of the exact calculation but it would, at a high level, look at something like an EBIT (earnings before interest) and look at the average capital employed during the period that we're looking at; the beginning of the period capital employed and the end of the period and the average of that. We would also look at the profits that are reinvested into the business.

Richard Barker – Credit Suisse – Analyst

That's a book measure of capital, yes? It's whatever's in the financial statements.

Ajay Bahri – Qtel Group – CFO

Precisely.

The TRS of course measures the returns from the market perspective so it's making sure that there are two measures; one is market driven, which sometimes can be impacted by things which are outside of the control of the management, which is macroeconomics and any event which happens where the market crashes. The return on capital employed is an internal measure which is not impacted by external factors and which is under the control of the management. It balances out both these factors.

I think your last question was on the net debt to EBITDA side. I'm not absolutely sure what your question was because the guidance that is given, 1.5 to 2.5, is a very high level guidance of the what the target level which has been set by the Board. Individual decisions, of course, have different implications in terms of what the cash flow will be from a potential target, for example, as well as the EBITDA which will come from that target as well as the debt level on that potential target as well. The modelling which is done when acquisitions are done does consolidate the potential acquisition and looks at all these issues. Another factor which, of course, is not considered here is an overall measure of the proportionate net debt to EBITDA as well because very often the debt, as you've seen in the past, is at Qtel stand alone level for the acquisitions. The consolidated view is good as an overarching target, however when you're looking at actually raising the debt then you have to triangulate that, the proportionate levels of ownership, and then see how cash flow would be generated from those units to service that debt. That's the standard practice which would be done but, of course, as a general guidance we won't get into those details here.

Operator

Once again ladies and gentlemen, if you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel that request please press the hash key. Your next question comes from the line of Ranjan Sharma of JP Morgan. Please go ahead.

Ranjan Sharma – JP Morgan – Associate

Hi, good afternoon and thank you for the call. My question is on Iraq. Can you please quantify for us the reversal of the spectrum fees that you have provisioned and what do you think is a good run rate for the EBITDA margin going forward? Thank you.

Ajay Bahri – Qtel Group – CFO

The reversal which happened was approximately QAR80 million, which was relating to the past three years. On the run rate let me just come back to you. I think it will be definitely about 50% but because in Q3 we had a one-off adjustment of about QAR55 million. If you adjust QAR55 million from previous quarters, just give me a second here. I think you're looking at about 50%, 51% run rate, I think, normalised run rate.

Ranjan Sharma – JP Morgan – Associate

Okay, thank you.

Operator

Thank you. Your next question comes from the line of Madhi Singh of Morgan Stanley. Please go ahead.

Maddy Singh – Morgan Stanley

Yes, hi. Two questions on Tunisia; firstly, is there any update on the 3G licensing process there and, secondly, what was the normalised revenue growth in the fourth quarter in Tunisia? My sense is that the revenue growth was very strong, what the driver behind the growth? Thank you.

Jeremy Sell - Qtel Group – Chief Strategy Officer

Shall I take the first one, Ajay, and you take the second?

Thanks Maddy. The 3G processes is that the license terms have been issued by the Government, they are well documented and well researched; we've got a team actively working on that. I can tell you that it is for a fixed and 3G license and that we need to reply to that by, I think it's actually early next month, I'm not sure, it's in the next few weeks, and we're all geared up to do that.

Maddy Singh – Morgan Stanley

Is it one licensing process for fixed as well as 3G or these are two separate licenses?

Jeremy Sell - Qtel Group – Chief Strategy Officer

It's a combined license, fixed and 3G.

Maddy Singh – Morgan Stanley

All right. When you say fixed it will be a wire line or it's going to be similar to what Nawras is doing in Oman?

Jeremy Sell - Qtel Group – Chief Strategy Officer

I don't want to talk too much about it because there are various interpretations, so that would be giving away quite confidential information, but we are confident that we understand the terms of the license and we are very pleased that it is fixed and 3G because we think that will give us a significant competitive advantage if we are ultimately the winner.

Maddy Singh – Morgan Stanley

By when would you expect the whole process to complete?

Jeremy Sell - Qtel Group – Chief Strategy Officer

The timetable is public but I think it's at the end of April. Let's say for sure by the end of second quarter.

Maddy Singh – Morgan Stanley

All right.

Ajay Bahri – Qtel Group – CFO

On Tunisia the normalised quarter on quarter growth, if we look at local currency normalised, Q4 2011 to Q4 2010 is about 14.5% growth on a local currency basis.

Maddy Singh – Morgan Stanley

This is quite strong compared to the run rate we have seen during the rest of the year so what's driving this?

Ajay Bahri – Qtel Group – CFO

I don't think that about the rest of the year; in fact the revenue on a local currency basis is flat compared to last quarter, it was 289 and it was 288 last quarter so it's reasonably flat. The reason for the growth in Tunisia this year has been primarily because of international revenue and roaming revenue coming from a lot of refugees which came into the country. I think we talked about it earlier in the previous quarter as well. That has helped the company, they've probably captured a disproportionate share of that revenue, but I don't see a disproportionate increase in Q4 because Q3 I think the growth was probably single digits at least; it's not that strong yet.

Maddy Singh – Morgan Stanley

How sustainable do you think is this international refugee revenue going to be?

Ajay Bahri – Qtel Group – CFO

I think for the time being the revenue has stabilised now. You don't see the growth so much.

Jeremy Sell - Qtel Group – Chief Strategy Officer

We're relatively hopeful that, as the company continues to stabilise, so we'll go back to previous levels of tourism which were a major driver of foreign revenues. We're already seeing people returning to Tunisia and bookings are up for this summer.

Maddy Singh – Morgan Stanley

How is the corporate segment doing in Tunisia? Has that recovered compared to, say, first quarter of 2011?

Ajay Bahri – Qtel Group – CFO

There has been a general recovery, as you can anticipate, with things stabilising slowly there, but a complete turnaround, of course, will take a little longer time. The corporate revenues, to some extent, are also linked with tourism as well, so all these issues are intertwined and although things have stabilised now I think we still need to see the real growth coming back maybe in this coming year hopefully.

Jeremy Sell - Qtel Group – Chief Strategy Officer

I think, on a comparative basis, we're extremely pleased with the efforts that the management have put in and the results they've achieved compared to our competitors there in managing through a very difficult time and under extremely trying circumstances. That has been an all round success for us and we're pleased with it.

Maddy Singh – Morgan Stanley

Okay. Thank you.

Operator

Thank you. Your next question comes from the line of Damon Gurden of Generation Investment Management. Please go ahead.

Damon Guirdham – Generation Investment Management

Hello, can you hear me?

Jeremy Sell - Qtel Group – Chief Strategy Officer

Yes. Hi Damon.

Damon Guirdham – Generation Investment Management

Great. Hi there. Two questions on CAPEX; firstly, obviously the original budget for the year, I think, was QAR7.228 and you've come in nicely under that, which is great for cash flow, but I just wanted to ask how should I think about that as we go into 2012? I know you haven't got a published budget but should I think of those, best part of a billion Riyals, as projects that you intend to roll into 2012 or were there some savings there relative to the original budget?

Then one specific on CAPEX in Iraq, which has dropped quite meaningfully year on year as far as I can tell, although obviously it was coming from a high level of capital intensity. Should I think about that as a coverage roll out that has completed its course and now the business is going to a more normal level of capital intensity maybe in the high teens or is there just a one-off nature to this drop and we'll be bouncing back up?

Ajay Bahri – Qtel Group – CFO

Let me take the overall CAPEX question. Of course we are at similar levels to last year and, like I've mentioned, we do have CAPEX commitments of almost 2.3 billion across the group which are orders which have been issued still not implemented. The declining CAPEX is resulting more from the delay of certain projects which could be delayed without impacting revenue and therefore this is not a result of cancellation of some of the projects. However, having said that, we will be coming back with guidance on 2012 CAPEX end of Q1 and probably we can get into more details about expectations going forward for CAPEX. We don't expect a dramatic change there because we are still seeing growth in all of our markets, especially growth coming from the data side of the telephone market, so there is need to invest to get some of those data related returns which are strategically important to capture, especially for high end users.

As far as Asiacell's concerned, you are right that last year was a year when we had invested heavily to get some of their coverage requirements fixed. At the same time we do see a lot of healthy growth in Asiacell. Part of what's happening in the industry is the modernisation of the network and of equipment available, which brings about opportunity to upgrade equipment and be ready for the next generation of equipment. To that extent we want the CAPEX level for 2012 to be similar to 2011, potentially not as high as 2010.

Damon Guirdham – Generation Investment Management

Great. You said at a group level don't expect a dramatic change to the approach to CAPEX?

Ajay Bahri – Qtel Group – CFO

That's right. I think we can get into CAPEX at the end of Q1 and we'll likely come to you with exact numbers.

Operator

Once again ladies and gentlemen, if you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel that request please press the hash key. Your next question comes from the line of Diala Hotate]of NBK Capital. Please go ahead.

Diala Hoteit – NBK Capital – Analyst

Yes, hi. I have two questions. First, what's the percentage of handsets saved from the total revenue in Kuwait? Second question; what's the reason behind the decrease in wireless broadband subscribers in Indonesia and Kuwait?

Ajay Bahri – Qtel Group – CFO

We don't actually keep details of handset sales separately but we do conceptually refer to that in terms of quarters where those sales are higher. Q3 was a quarter where handset sales were higher in Kuwait but not so much in Q4. However that handset sales is a trend in the market right now and I think one would see, depending on the market dynamics, this issue can keep coming back depending on the market dynamics.

As far as the wireless broadband is concerned, and I have to look at this really carefully, there is the bundled business, which is substituting the fixed internet business, and then you have the smartphones which also have data packages. The revenue coming from smartphones, where the penetration is increasing now, is where the data is captured as part of the post-period revenue, so what you are seeing here as a decline in Indosat as well as in Kuwait, for example, on the bundled business but that's being offset by an increase in smartphone related direct packages on smartphones, etc.

Diala Hoteit – NBK Capital – Analyst

Okay. Thank you.

Operator

Once again, ladies and gentlemen, if you would like to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel that request please press the hash key. There are no further questions at this time. Please continue.

Carson Wolfer – Qtel Group – IR

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 Q1 2012 update, the date for which we will announce in the coming weeks, meanwhile thank you again for your interest in Qtel and good day.

Operator

Ladies and gentlemen, that does conclude our conference for the day. Thank you for participating, you may all disconnect.