

Message

From: Yeh, Andrew [AYeh@catcapital.com]
Sent: 3/7/2014 11:17:14 AM
To: Glassman, Newton [nglassman@catcapital.com]; De Alba, Gabriel [gdealba@catcapital.com]; Michaud, Zach [zmichaud@catcapital.com]; Moyse, Brandon [BMoyse@catcapital.com]; David Moore [david@bellmore.ca]; Jon Levin [jlevin@fasken.com]
Subject: Writeoff clouds Wind Mobile's future

Writeoff clouds Wind Mobile's future

RITA TRICHUR - TELECOM REPORTER

The Globe and Mail

Published Thursday, Mar. 06 2014, 4:17 AM EST
 Last updated Friday, Mar. 07 2014, 10:55 AM EST

Wind Mobile is facing an uncertain future after its foreign financial backer, VimpelCom Ltd., wrote off its Canadian investment – a move that signals its frustration with Ottawa's foreign investment rules. Amsterdam-based VimpelCom announced Thursday that it "fully impaired" its Canadian assets during the fourth quarter of 2013 because of "challenges" it faces in this country, including its inability to gain full control over Wind. Those same obstacles caused the telecom company to drop out of the recent 700 megahertz spectrum auction and weighed on its "reassessment of future prospects for continuing operations" in Canada. VimpelCom will continue to finance Wind's operations, but it has not specified how long that funding will last. Executives have not ruled out a possible sale of the Toronto-based carrier, but they may have trouble obtaining an optimal price.

Even though a federal ban preventing Wind from selling its wireless licences to one of the Big Three carriers expires next week, Industry Minister James Moore has already stated that he will reject any deal that results in diminished competition – suggesting VimpelCom could remain at loggerheads with Ottawa for some time to come.

"Just want to be clear, the setup with the impairment in Canada was related to the results of the recent spectrum auction," said chief financial officer Andrew Davies on a conference call with analysts. "We strategically made a decision to withdraw from that auction process as a result of our inability to take some – the right level – of control over that asset."

He later added: "We continue to explore all options. That could involve, again, in-market consolidation; it could involve a sale of the business. We will not give up, and we will do everything that we can to actually generate positive shareholder value in Canada."

VimpelCom's impairment of its Canadian assets amounted to \$768-million (U.S.) during the fourth-quarter compared with \$328-million during the same period of 2012, according to its financial statements. As a result of that non-cash charge, and a separate one worth more than \$2-billion on the impairment of its Ukrainian assets, VimpelCom said it fell to a quarterly loss of \$2.66-billion from a year-earlier profit of \$195-million.

"It is business as usual at Wind and this accounting decision has no impact on our operations," Wind Mobile CEO Anthony Lacavera said in an e-mail, adding, "Wind is here to stay."

Wind increased its subscriber count to 649,000 during the fourth quarter, up from 590,000 a year earlier, Vimpelcom said. But its Egyptian-based subsidiary, Global Telecom Holding SAE (formerly called Orascom Telecom Holding SAE), reported that Wind had 676,209 subscribers in Canada, up 14 per cent year-over-year. Vimpelcom has an indirect economic ownership stake in Wind through GTH.

"The difference in subscriber base numbers appeared because VimpelCom reports on active subscriber base and GTH on total," a spokesperson said.

Wind's average revenue per user, a key metric that reflects the average monthly consumer bill, increased by 6 per cent on a year-over-year basis to \$29.80 (Canadian).

"With VimpelCom's announcement we wonder if it is prepared to finance significant incremental losses at Wind," wrote Dvai Ghose, a telecom analyst with Canaccord Genuity, in a research note to clients. "Consequently, we may see a contraction in its subscriber base over time, especially as we assume high churn."

Last summer, the VimpelCom subsidiary withdrew its application to take formal control of Wind after it became apparent that Ottawa planned to reject the related transactions on national security grounds, sources say. With no path to control, VimpelCom yanked Wind's funding for the 700 MHz auction.

Toronto-based Globalive Wireless Management Corp. operates the Wind brand in Canada. Wind launched service in late 2009 after spending \$442-million (Canadian) on wireless licences. The five-year ban on Wind selling its spectrum to carriers such as Rogers Communications Inc., Telus Corp. or BCE Inc. expires March 13. (BCE owns a 15-per-cent stake in The Globe and Mail.)

DISCLAIMER:

This e-mail (including any attachments) may be confidential and is intended only for the use of the addressee(s). If you are not an addressee, please inform the sender immediately and destroy this e-mail. Do not copy, use or disclose this e-mail. E-mail transmission cannot be guaranteed to be secure or error free, and the sender does not accept liability for any errors or omissions in the contents of this message which may arise as a result of e-mail transmission.

DISCLAIMER:

This e-mail (including any attachments) may be confidential and is intended only for the use of the addressee(s). If you are not an addressee, please inform the sender immediately and destroy this e-mail. Do not copy, use or disclose this e-mail. E-mail transmission cannot be guaranteed to be secure or error free, and the sender does not accept liability for any errors or omissions in the contents of this message which may arise as a result of e-mail transmission.