

Qtel Group Q3/9M 2010 Results Call

22 October 2010



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Operator

Thank you for standing by, ladies and gentlemen, and welcome to the Qtel Group results conference call for the nine months to September 30th. 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. May I just advise you that this conference is being recorded today on Friday 22nd October 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. As part of the Qtel Investor Relations team, thank you for joining us for today's call to discuss Qtel's 2010 Q3 and nine month financial results.

As part of today's discussion I am pleased to introduce Mr. Ajay Bahri, Chief Financial Officer, Mr. Nick Dent, Qtel Qatar's Chief Operating Officer, Mr. Jeremy Sell, Chief Strategy 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 will 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 defer from actual future events or results. So to begin I will hand over to Ajay. Ajay,

Ajay Bahri – Qtel Group – Chief Financial Officer

Thank you, Carson, and welcome to everyone on the call. Let's begin by turning onto slide number three, looking at an overview of the performance for the first nine months. These are solid financial results. The Group has increased its revenue by 14%, EBITDA by 15%, and net profit for Qtel shareholders by 4% compared to last year.

Looking now at the performance of all the subsidiaries. Indonesia delivered good market and financial results. In the home market, Qatar, we have maintained our revenue share despite increasing competitive activities. Elsewhere we've seen positive performance from Kuwait, Tunisia, and Oman. Our growth engines, Iraq and Algeria, also continued to perform very well.

Turning to of our capital markets activity, we had a huge success in the issue of the Indosat bonds, for \$650 million a 10-year bond. And more recently at a Group level we issued \$2.75 billion under our GMTN programme which also was a big success. Just to highlight here the GMTN programme issuance of \$2.75 billion was done taking into account some of the refinancing requirements we have in 2012.

Now moving onto the next slide, it gives you an overview of the revenue and EBITDA. As I've mentioned earlier the revenue has grown 14% year on year reaching QAR20 billion, similarly EBITDA has increased 15% reaching QAR9.5 million. The EBITDA margins over the period have remained reasonably stable at about 48%. So overall a continued good performance and we are extracting positive results from our existing portfolio.

Moving onto the next slide, this shows you the net profit to Qtel shareholders, and net debt situation of the Group. The net profit for Qtel shareholders grew by 4% reaching QAR2.44 billion. The increase in net profit is a result of the proportionate shareholding in each of our properties. The level of growth that you've seen in our revenue and EBITDA comes from our under 100% shareholding, so it doesn't translate 100% into the net profit.

Comparing Q3 2010 with Q3 2009, there's a lot of impact by comparative FX movements in Indonesia, and also what we see in 2009 was a quarter in Qatar where full impact of competition was not there. In Q3 2010 there was full impact of competition. So a decline of 8.3% in net profit is seen in Q3 2010 with Q3 2009.

In terms of net debt to EBITDA, the total net debt for the Group is QAR22.8 billion, and the leverage has been consistently coming down as you can see in the graph reaching 1.8, two times, EBITDA in the nine months ended 2010. Next slide, please.

This slide gives you an overview of Capex. As you can see with Capex, spend is down about 23% compared to where we were last year at the same time. This is a combination of two things. One is of course that we have been doing a lot of Group level procurement where we got a lot of discounts, which are in the frame agreements. Additionally there has been commitment of Capex which has still not translated into spend, so what you see is a spend number on the graph, so delaying projects, execution, has an impact on that. Similarly the proportion of Capex to revenue has also been impacted positively by the decrease in Capex. But the total Capex programme has not changed, there is a delay and some of the work might happen in Q1 2011 going forward.

Next slide. Slide number seven shows you the total Group debt profile. As you can see the short-term piece of the total Group debt is very small, there are no major refinancing risks for the Group. In terms of the debt structure most of the

debt set about 63% is held in Qatar, followed by Indonesia about 30%, the rest of the debt is spread amongst Algeria, Oman, and Tunisia.

Next slide, please. This slide highlights the debt maturity profile at Qtel Group, and as you can see we recently raised \$2.75 billion which is in the light blue bars that you see in 2016, 2021, and 2025. These funds are primarily to refinance the \$3 billion in 2012. So if you want to ignore the 2012, you will see that the debt maturity profile is fairly spread out and no big refinancing for the Group going forward after that. So after the recent issuance of bonds the maturity profile is at a level we're very comfortable with.

The next slide shows you total and proportionate share of customers of the Group. 31% increase in total customers across the Group. On a proportionate basis also a similar increase has happened, mostly driven by markets such as Indonesia, Iraq, Algeria, and Palestine.

Next slide, please. This gives an overview of the results I've just highlighted. Revenue is up 14%, EBITDA is up 15%, net profit and earnings per share is up 4%, the market capitalization is up about 17% as a result of positive movement in the Qtel share price. We believe we continue to have a right mix of assets, the right strategy, and the right focus.

If you turn onto slide number 12, it's basically highlighting the strategy. There's been no change there. And we continue to focus on the things we've told you in the past, and if there are any strategy developments we will be reporting that you to in due course.

Now I'll quickly run through some of the operations giving you the financial overview of the results. As a reminder I would also refer you to the section of the presentation starting on slide 24, as well as a breakdown by operation workbook. Both provide additional details on each of our operating companies including sequential quarterly results.

Starting with our operation in Qatar, Qtel. In terms of performance in the period we have seen an increase in competitive pressure remembering that while this is the first full year of competition, the competitions' effective market entry began in September 2009. On a nine month performance basis the revenue was down about 6% compared to last year. The EBITDA has been down about 16%. Looking at quarter two to quarter three movement, revenue is down about 6.8%, we feel as a combination of two things. Seasonally Q3 is a slower month compared to Q2 as a result of the holiday season and Ramadan. And the second reason is that the Q3 of 2010 is a complete quarter of full competition, whereas in Q3 of 2009, Vodafone had just about launched its operations. In terms of EBITDA, Q2 to Q3 EBITDA is down about 13%. If you see the EBITDA margin move from 58% to 54%, that is primarily because of a one off adjustment in

Q2 of this year. There was a one off reversal in Q2, due to which the EBITDA margin actually for Q2 is higher, even compared to Q1 last year or of this year as well.

In terms of ICT Qatar's decision on Qatar Virgin Mobile's service, we await any decision from the Office of the Attorney General.

Next slide, please. Moving onto Asiacell. Another very strong performance in Iraq. Strong revenue, and EBITDA performance. This has been achieved in traditionally a seasonally low period and against an increasing competitive dynamic. Customer growth continues although the pace of this, as previously mentioned, has been impacted by the Government registration process. The new billing regime on a dinar per second basis has now taken place, and is fully reflected in the results. Q2 to Q3 one sees net profit is down about 13%, this was a result of a one off reversal of interest costs in Q2. There was a reduction in interest on the payable to the Government for the licence fee, which had a backdated impact in Q2. So the Q3 net profit is more in line with the expected run rate.

Next slide, please. Indonesia. As Indosat has not yet released its full results for the period, I'm limited by the level of detail I can share with you today. Indosat expects to announce the date of the release of the results shortly. We saw the fifth successive quarter of subscriber growth and stable ARPU levels, so revenue increased by 28% in Qatari Riyal terms, and 9% increase in local currency terms. This continued to be driven by increase in cellular revenue, in local currency it increased about 16.6%. The EBITDA also saw a positive increase of 34% in Qatar riyals and 14% in terms of local currency. The increase in Qatari Riyals is primarily because of the strengthening of the IDR against the US dollar. The EBITDA margin has remained stable around 50% during that period.

The net profit has been impacted by the movement in foreign exchange which I referred to you earlier. In 2009 the IDR movement was more significant and therefore some gains in foreign exchange were booked last year which are not repeated with the same magnitude this year. On the Capex side, the Capex efficiency has increased as a result of frame negotiations and rationalization of the number of vendors. You see a slight difference in the local currency numbers that you see in our slides, and the release from Indosat. That's because we are reporting numbers based on IFRS, whereas Indosat are disclosing local currency numbers based on Indosat.

Next slide, please. Nawras in Oman had another successful period with continued growth in revenue in EBITDA. Subscriber growth continued in the period amid continuing competitive pressure, finally it was the first full quarter of the fixed line operations. If you look at quarter two to quarter three the revenue is up about 4.7%, which includes basically a fixed line component of about 4%. And on a net profit basis there's an impact of a one off charge in Q3 which

is relating to charges relating to the launch of the IPO and the fixed business. So the EBITDA margin is impacted on a one off basis as a result of this in Q3.

Next slide, please. Wataniya, Kuwait. A positive quarter in Kuwait with the competitive environment remaining stable and Wataniya maintaining market share. Customers continue to grow across both premium and post paid segments. Revenue was up 9% over nine months against previous year. Q2 to Q3 also revenue was up 3.3% driven by increase in wireless broadband revenue and handset sales. EBITDA was up 4% on a nine month basis, and the EBITDA margin is slightly down, but more or less in line with last year. Right now we continue to focus on growth market segments. There remains no update on our regulatory environment as yet. As far as net profits are concerned, Q2 to Q3 there's a decline in net profit which is basically resulting from exceptional FX movements which happened in Q2 which are not repeated in Q3.

Next slide, please. Algeria. Nedjma's performance in the period saw a substantial increase in revenue and EBITDA, 21% and 34% respectively. The customer base was up marginally quarter on quarter as it maintained market share and growth revenue. Q2 to Q3 the revenue is up 7%. It has been an interconnect regime which has been implemented where the interconnect charges have been reduced in the market, which has some impact on the revenue but on an EBITDA basis it's materially not having any impact. So the revenue that you see 7% growth is after the impact of the interconnect regime. A 2% higher revenue growth would be there if we were to adjust that.

EBITDA margin stood at 37% for the period in line with our expectations. If you compare Q2 to Q3, the EBITDA margins are slightly down. In Q2 we had a sudden benefit of network maintenance vouchers which we had highlighted earlier, where you see a spike in the EBITDA margins. 37% that you see now is more of a normalized margin.

Next slide, please. Finally onto Tunisiana. At Tunisiana we maintained a market leading position and increased our customer base by 4% as they increased their investment and marketing effort. As yet there continues to be limited impact from the third operator, Orange, who launched their operations earlier this year. Revenue was up 10% in local currency terms, and offset by negative FX movement, in Qatari Riyal terms it's up 6%. The EBITDA is also up 6% in local currency terms, and 1% in Qatari Riyal terms.

EBITDA margin was slightly up compared to previous period at about 53%. This brings us to the end of the presentation. Thank you very much, and let me hand it back to Carson.

Carson Wolfer

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

Questions and Answers**Operator**

Thank you. We will now begin the question and answer session. If you would like to ask a question please press star one, and wait for your name to be announced. To cancel your request just press the hash key. Your first question comes from Christian Kern. Please ask your question.

Christian Kern - JP Morgan

Hi there, this is Christian Kern from JP Morgan. Two questions, if I may. The first one on the competitive situation in Qatar and Indonesia. Can you just elaborate a little bit more about which segments competition is still very strong in Qatar, and where you see some easing in the Indonesian market place? My second question would be with regards to Saudi Arabia. Is that a country you would be interested in expand in? Thank you.

Nick Dent - Qtel Group - Qatar's Chief Operating Officer

Okay. With regard to Qatar, the competition is in terms of segments really. Vodafone only have one group of products which is effectively in the prepaid mobile segment, and so competition is obviously hottest there. However, those products do also attract certain business usage, for example migrating from fixed line to mobile, and they do appeal to some of the post paid customers as well with some of their higher automatic recharge products. But it's very much hottest in the prepaid segment. And in terms of specifics product-wise within that segment, they continue to increase their aggression on international pricing, and they've actually launched some calling cards there as well now. And in addition to that they've started to become very aggressive on local pricing as well where there is much less elasticity in the market.

Rick Seney - *Qtel Group - Chief Operating Officer*

With respect to Indonesia, there's not a lot of specificity I think to put to it in general terms. I think if you look at what you've seen in the market, the methods of competition, the level of competition has remained reasonably similar during the quarter. And I think of course the management can go into that in more detail at we're a little bit hamstrung in our ability to do that. I would say that I think based upon the information in the market that the company believes that it performs favourably compared to the other key operators' results for the similar period.

Jeremy Sell - *Qtel Group - Chief Strategy Officer*

Jeremy Sell here. In terms of Saudi, the question on that. We already are in the Saudi market. We have a small operation with the majority held by our subsidiary Wataniya. IDEN is like Nextel in the States, it's a push to pull technology. We've had that since 2007. In terms of getting bigger in that country, absolutely, it's right in our strategic cross wires, and we monitor developments there very carefully.

Christian Kern - *JP Morgan*

Thank you very much.

Operator

Your next question comes from Kunal Bajaj. Please ask your question.

Kunal Bajaj - *HSBC - Analyst*

Yes, hi, thank you. It's Kunal Bajaj from HSBC. I have a couple of questions on Qatar ARPUs. Post paid ARPUs went down by around 8% sequentially, so was it due to pricing, less usage? Because as I understand it, Vodafone Qatar hasn't started their operations in post paid yet. And secondly, on R&D project in Qatar what's the (unclear), and can you quantify it as well in terms of Capex contribution to the project? And one more on mobile broadband in Qatar as well. What's the total mobile broadband subscriber for Q2 as of now in the country? Thank you.

Ajay Bahri - *Qtel Group - Chief Financial Officer*

May I just add one point on that. You said there is a seasonality quarter on quarter if you look at quarter two to quarter three, even for this period you'll see a decline in revenue there. Maybe, Nick, you'll have something on that.

Nick Dent - *Qtel Group - Qatar's Chief Operating Officer*

Yes. When you talk about sequentially, just to clarify on the ARPU, are you talking about the Q2 to Q3 ARPU this year, yes?

Kunal Bajaj - *HSBC - Analyst*

That's right.

Nick Dent - *Qtel Group - Qatar's Chief Operating Officer*

Okay. With regard to seasonality in the post paid phase, our belief is that around about 6% variant is normal from seasonality. The rest of it would be mainly attributed to movements in usage, and that would primarily be down to probably using some prepaid products as well, as many customers have multiple SIMS within this market with penetration up at 170%, 180%. Plus there have been a few promotions on the value packs, and so that will have an impact on that.

With regard to the [QNBM], that is something which the Government has announced that it has an intention to move forwards in the [QNBM], it's something that I personally chair Qtel's contribution into that steering group. It's at very early stages at the moment, and the specific scope, budget, contribution, and structure of that is very much still under discussion. And I think it will be a while yet before questions around who does what, who contributes what, and so forth are resolved. However, I would say that we're approaching this with a very commercial mindset, and we will only do things which are value creative to our shareholders.

With regard to our broadband, I don't believe that that's a number that we make publicly available currently. However, we have by far the lion share of that market within Qatar.

Kunal Bajaj - *HSBC - Analyst*

Thank you.

Operator

Your next question comes from Damon Guirdham. Please ask your question.

Damon Guirdham - *Generation Investment Management - Analyst*

A couple of questions for Ajay, please. Could you tell me when you last took cash out of your Algerian or Iraqi businesses, either in the form of kind of dividends or a payment of shareholder loans, or management fees? And the second was with all the recent refinancings, how should we think about the level of interest expense in 2011 relative to what we've been seeing so far in 2010? I mean the interest rates appear to be lower so should we be expecting a lower level of net... of gross interest expense?

Ajay Bahri - *Qtel Group - Chief Financial Officer*

Okay. In terms of Algeria, Algeria is a project finance entity right now, its limited on what cash upstreaming can be done until the project finance indebtedness is taken care of. However, there's a management fee element which is taken out of the country and put in an account separately, which is not to be used until the project finance indebtedness is finished.

As far as Asiacell is concerned, there has been no dividend upstreaming, but there are loan repayments which come out regularly from Asiacell, a further management fee upstreaming there as well.

As far as recent financing is concerned, one would have to put any perspective in terms of what it replaces, what it replaces on loans it puts in place a few years back when interest rates were quite low. In fact, if you look at the slide interest repayments of \$3 billion, there are about 37 basis points over LIBOR. We do have some interest rate hedges, which we put in place at the same time which increases the cost. On an overall basis, one would expect a slight increase in the cost, the lending costs that we get now is slightly higher than the cost of the swaps plus the interest rate, which is there on the previous loan.

Damon Guirdham - *Generation Investment Management - Analyst*

Great. If I could add one other question. Just quickly really a follow up from the question around Saudi, and Jeremy saying that this was right in your strategic focus. Could you talk a little bit around the Group's view of the minority stakes past control, what kind of timeframe is reasonable, for a path to control to be interesting to you?

Jeremy Sell - *Qtel Group - Chief Strategy Officer*

That really varies country by country, and there are so many factors, I can't generalise. In many of the subsidiaries we have to have IPOs so we have to be public. So for example in Oman and Palestine, we're actively involved in two IPO processes there, and we have control but we can't get any more. If we like a particular business, we'd like more of it, and so where it makes sense we'll take the minorities out, hopefully at a good price that's beneficial to us.

Of course, in many of our operations we're very happy to have local partners in there who act not only as guides to the country, but also actively help us in the operation. So for example, we're very happy with our Iraqi partner, of course we're also very happy with the operation and so if any more of that became available we'd probably step up. So really I guess it's opportunistic, where control is available we will always go for control, we'll always try and consolidate, and we'll always try and exercise our governance and our style of management on the operations. Where we have minorities, for example in Singapore, Laos, and Cambodia, that was done for strategic reasons to get into a new area. When control became available, as it did in Indonesia, we didn't hesitate to step up first to 40% and then all the way up to the limit of foreign direct investment which is 65%.

Damon Guirdham - *Generation Investment Management - Analyst*

Great, thank you.

Operator

Your next question comes from Maddy Singh. Please ask your question.

Maddy Singh - *Morgan Stanley - Analyst*

Yes, hi. Two questions. First, can you please tell me what is the amount of forex gains in the third quarter in Qtel's income segment? And second question is on Algeria, can you please tell us about the environment in Algeria currently, and are you facing any problems in promotional activities you want to do? And what is your strategy going forward in Algeria, are you going to focus on the top line growth, or you think that you are happy with the current growth you are seeing, and you will focus more on the margin expansion in the business? Thank you.

Ajay Bahri - Qtel Group - Chief Financial Officer

Let me take the first question, in terms of foreign exchange at Qtel Qatar level, only what we have done now is we've included that as part of our other income now, it used to be separately disclosed. But on the first nine months basis about QAR53 million, for the three month, and QAR198 million for the nine months.

Maddy Singh - Morgan Stanley - Analyst

QAR198 million for the nine months, and QAR53 million for the three quarters, right? Sorry, the first quarter... third quarter?

Ajay Bahri - Qtel Group - Chief Financial Officer

Third quarter, that's right.

Maddy Singh - Morgan Stanley - Analyst

QAR53 million for the third quarter. Okay.

Rick Seney - Qtel Group - Chief Operating Officer

For Algeria, I'll split that into two pieces. First on the regulatory front, a couple of recent developments. As I'm sure you probably know the regulatory body has been not in session for some period, for some number of months. However there have been new appointees that have just been named, so it's a bit early I believe to see what type of approach in policy we're going to see from them. Historically the regulator has been a factor in what we could and could not get approved. So let's see what this new group brings and we'll have a better feel for that I think as Q4 fully unfolds. But as you can tell from the results for Q3, the company has continued to take substantial market share during that period, having grown its revenues in [DZD] terms by 7%, and in fact given the change in the interconnect rate, that took effect on July 1st, on an apples to apples basis, that's more like a 9% sequential quarter gross. But also it is recognition of the fact there are some seasonality plus and minus aspects to the summer as well as Ramadan.

The focus going forward. Clearly our revenue share in the market remains far below an equal one given the three operators that exist today. We're well aware of that, and we want to continue to push for a fair share of our top line. Having done so, however, I think we are conscious of the EBITDA levels, the EBITDA results for Q3 still reflect a quite substantial spend on marketing and promotion costs, those were ones we will continue to look to optimise. Given the

gross that we have had, we obviously are not going to pursue growth only for gross sake, it needs to be profitable business, and we'll keep an appropriate balance. We did last year, as you know, very aggressively go after that window of opportunity, and you can see the end result of that. I would doubt that we would see a window with that type of opportunity again, so therefore I would see the focus is being a more balanced one for the periods ahead.

Maddy Singh - *Morgan Stanley - Analyst*

Can you please just tell me what is the current MTR rate now, and what did it used to be?

Rick Seney - *Qtel Group - Chief Operating Officer*

Let us come back and I'll give you the specifics of that if you'd like that later. Because we'll get people confused I think in terms of [DZD] terms, etc. But if you look at the net effect, just to put the message together, the net effect on revenues on a comparative basis, the day they went into effect it drops our top line revenues about 2%, even though the net effect on EBITDA is nominal.

Maddy Singh - *Morgan Stanley - Analyst*

Okay. So that particularly implies that you probably are break even on specifically interconnect level, right?

Rick Seney - *Qtel Group - Chief Operating Officer*

I'm sorry, say again.

Maddy Singh - *Morgan Stanley - Analyst*

You are particularly break even on interconnect level? You will receive as much as you pay?

Rick Seney - *Qtel Group - Chief Operating Officer*

It's not that far off, it's not a complete break even, but the point is it's a relatively minor impact on net EBITDA.

Maddy Singh - *Morgan Stanley - Analyst*

Okay. What does it do competitively in the market for you? Do you think that will specifically make you more competitive in the market, will it help you in gaining your share in the revenues in the market?

Rick Seney - *Qtel Group - Chief Operating Officer*

The net impact didn't really change the dynamics. Everybody was taken down by the same level for the most part. So I don't see those dynamics changing.

Maddy Singh - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Once again, ladies and gentlemen, please press star one if you would like to ask a question. Your next question comes from Daria Fomina. Please ask your question.

Daria Fomina - *Goldman Sachs - Analyst*

Yes, hello. My question is regarding Tunisia. There was news in the press that the Tunisian Government want you to buy Orascom stakes, this is mainly 50% using your pre-emptive rights. Can you please give us some details on your agreement regarding these pre-emptive rights, how... if it's done, how it's going to be done, if you're going to use it? Thank you.

Jeremy Sell - *Qtel Group - Chief Strategy Officer*

I think you've answered your own question. It's true, we have pre-emptive rights at the Tunisiana level and they're held by Wataniya, which is a parent of 50% of Tunisiana. You know, we're interested observers in the potential tie up. There might be an opportunity to move on the 50%, there might not. So really we're just being reactive, and waiting for people to come to us. As for the Government, we haven't heard that, there's been no approach from the Government to us, and in a way it's a private deal. Of course the Government would have to sanction any new owner coming in, it would... they would need regulatory approval. But in terms of their desires, we're just waiting to see what happens between the two.

Daria Fomina - *Goldman Sachs - Analyst*

Thank you.

Operator

There are no further questions. Please continue.

Carson Wolfer - *Qtel Group - IR*

Thank you, 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 full year 2010 update, the date for which we will announce in early 2011. Meanwhile, thank you again for your interest in Qtel, and have a good day.

Operator

That does conclude our conference for today, thank you for participating. You may now disconnect.