

Qtel Group 9M 2011 Results Call

31 October 2011



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- Future sales growth
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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.

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Corporate Participants

Carson Wolfer
Qtel Group IR

Ajay Bahri
Qtel Group - CFO

Waleed Al-Sayed
Qtel Qatar - COO

Presentation

Operator

Thank you for standing by and welcome to the Nine Months Results Call 2011. At this time all participants are in a listen-only mode. There will be a presentation followed by question and answer session, at which time if you wish to ask a question you will need to press star one on your telephone keypad. I must advise you that this conference is being recorded today, Monday 31st October 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. As part of the Qtel investor relations team, thank you for joining us for today's call to discuss Qtel's 2011 nine-month financial results. As part of today's discussion, I am pleased to introduce Mr Waleed Al-Sayed, Chief Operating Officer for Qtel Qatar, and Mr Ajay Bahri, Chief Financial Officer for the Qtel Group. We will first open with an overview of the group's results, followed by a question and answer session.

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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 notify you if our views change. We therefore refer you to our public filings for some factors that may cause forward-looking statements to differ from actual future events or results.

So to begin, I will now hand over to Ajay. Ajay?

Ajay Bahri - *Qtel Group - CFO*

Thank you, Carson, and welcome to everyone on the call.

Let's begin by turning to slide number three of the presentation. Firstly, we've seen solid and consistent financial results. When comparing year on year, revenues have increased 16.6%, EBITDA was up 14.6%, and normalised net profit attributable to Qtel shareholders is up 6.4%. Secondly, the balanced operational performance across our portfolio, I'll get into the specifics of this for each of the individual companies shortly. And finally, the core components of our group strategy remain the same and there is no change in the strategy of the company. Next slide please.

Let's immediately look at the financial performance of the group. We continue to see good performance. As mentioned earlier, consolidated revenue for the nine months grew 16.6% over nine months of 2010 to reach Qatari Rial's 23.6 billion. EBITDA also increased by 14.6% of the same period last year, increasing to Qatari Rial's 10.9 billion. The EBITDA margin over the period has remained relatively stable at about 46%. Next slide please.

The normalised net profit attributable to Qtel shareholders increased year on year by 6.4% to reach Qatari Rial two billion. The quarter three results had a decline, basically because of three main reasons. There were seasonal promotions across the group during the Ramadan season, particularly in Qatar and Algeria. There has been some adverse FX movement in some of our operations which has impacted the performance.

Some FX losses have been booked in Indosat, Algeria and Kuwait. And thirdly, in Kuwait a new regulatory charge has been imposed which has impacted the margins in Kuwait as well. I will get into the details of this for individual opcos as we go ahead. The Qtel Group's debt profile has

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been relatively stable. The net debt stood at 26.4 billion Qatari Rial's and the gearing has remained constant at about 1.91 times EBITDA. Next slide please.

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

The continuing split between long-term and short-term maturity debt profile is reflected in the success we have had in re-profiling our debt and we do not have any imminent financing needs in this year. However, you will see that in the short-term debt profile you'll see a large increase which is because of a \$3 billion loan due in August.

There are two more new additions in this short-term debt profile. There's an HFL loan of about \$250 million and about \$480 million in Indosat which is due in Q3 of 2012. The biggest piece of the \$3 billion is covered by cash in hand at Qtel level. You'll see that the group cash is about 23.8 billion Rials. A significant piece of that sits at Qtel level.

You'll recall that when we did that GMTN programme bond issuance in October of last year, about \$2.75 billion, that was primarily to take care of this huge debt repayment due in August of next year. In terms of where the debt sits, the majority of it sits at Qatar level, followed by Indonesia, about 20%, and the balance is 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 medium-term requirements are also accounted for and as a result we do not have any requirements for additional financing at this time. Next slide please.

This slide shows you the total and proportionate customers. We see good growth driven primarily by Indonesia, with additional solid growth in Kuwait, Tunisia and Palestine when compared to last year. Finally, you can see the summary of results on the next slide. The result for nine months has been in line with the guidance. In fact, the revenue EBITDA slightly ahead of the guidance and a capital expenditure increase of 12% is within the guidance growth of 5 to 15% growth of the previous year.

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Let's turn onto slide number 12. The strategy of the company has not changed and remains consistent and, as always, we commit to providing you updated, or when new opportunities reach a point of certainty in their development.

Moving on to slide number 14, we'll start with the operating good companies now. As a reminder, I will again refer you to the section on the presentation starting from slide 22, as well as a breakdown by operation workbook. Both of these provide additional details on each of our operating companies, including sequential quarterly results.

Starting with our operations in Qatar Qtel, revenue and EBITDA momentum continue when we compare year on year, with the EBITDA margins remaining stable over the nine-month period. In quarter three, a decline in EBITDA margin is visible due to promotional activities done during Ramadan. If we exclude this impact the EBITDA margin will be close to 50% and the decline in the margin was in line with our expectation because these were all planned promotions.

As a result of this promotion we saw an increase in mobile usage and revenue. However, this is in part offset by associated costs which placed some pressure on the margins, as I've just explained. Broadband, both fixed and mobile, continue to perform strongly. In line with other Qatari corporates, Qtel has also implemented a Qatari salary increase which was effective 1st September. Its overall impact is not material and is less than 1% of the overall EBITDA and this is also necessary for Qtel to remain competitive in the market to attract the best talent.

Moving on to the next slide: Asiacell. Another strong revenue performance with increased on-net usage and higher subscriber acquisition. EBITDA performance remains positive, although the Q3 was impacted by higher marketing promotions and a one-off provision. Excluding these one-off items the EBITDA margin will be close to about 52%.

The IPO process is on-going and we have engaged external advisors to assist us in the process. As you're aware, the IPO requirement is as per the licence and all three operators have a requirement to offer their shares in the IPO.

Another development during the quarter was the repayment of around US\$375 million to the government. This was a balanced licence fee which was payable to the government and it was demanded by the government. This was paid by part cash and part taking external loans of about \$250 million, which I just referred to you earlier.

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Moving on to the next slide: Indonesia. Indosat held its result conference call earlier today. The presentation is available on their website. As you can see, Q3 EBITDA margin has improved, primarily because in Q2 there was a charge for the voluntary separation scheme which doesn't repeat in Q3, which was offset to some extent by some FX losses and high depreciation.

In line with the overall moderation of market growth, there has been an increase in pricing pressures in the period. Despite this, Indosat recorded strong growth in revenue as a result of increase in subscribers which are now over 50 million, and an increase in non-cellular revenue. This in turn has driven EBITDA growth alongside lower operating costs. As announced earlier, Indosat has issued revised guidance for the year 2011 in line with the overall market growth. At the group level the guidance remains unchanged. Next slide please.

Nawras in Oman: Nawras announced its first-half results on 27th October. Revenue growth continued in Q3, driven principally by prepaid, post-paid and fixed services. EBITDA margin was positively impacted in Q3, reaching 53.7% by effectiveness of marketing and cost efficiency programmes initiated in first half of this year and certain reversal of provisions, about Qatari Rial 1.6 million, Omani Rial, sorry, which you can refer to their press release as well.

These relate to hurdle recoveries of debt which were provided for, as well as certain expenses which haven't matured. Total subscriber base was down marginally as a result of reclassification of active subscribers in line with regulatory changes. For further information, Nawras will host a results call on 2nd November. Please refer to their website for details. Next slide please.

Wataniya and Kuwait: revenue growth continued in Kuwait driven by successful promotions and on-going focus on higher value market segments, as well as handset sales. Market share remained stable, with focus on customer retention and churn mitigation. EBITDA on a yearly comparison basis grew strongly, while the Q3 EBITDA was impacted by a recent charge by the Ministry of Communication.

A new fee has been added which is replacing an old fee which was being paid on only post-paid customers. It's replaced by a fee payable on all the numbers allocated, including prepaid. The impact of this is approximately US\$2 million per month and the impact on the EBITDA margin has been about 3% as a result of this. This is applicable to all the three competitors or three operators in the country.

The normalised EBITDA, if you exclude some of the promotional expenses and handset sales, will be close to 44-45%. On the net profit basis also there was an impact; one, because of the

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lower EBITDA, plus also because of FX losses on the settlement of a loan which was part of the Tunisian transaction. So some of the unrealised gains which were booked in Q1 and Q2 were reversed in Q3.

Moving on to the next slide: Algeria. Despite a slow period, maintained a strong performance in terms of both revenue and EBITDA. Q3 EBITDA was impacted by Ramadan promotions and certain increases in staff salaries which have not been increased for two years, so one would see impact of that going forward as well, but the promotional costs will not repeat going forward. Net profit was also impacted by FX losses, as I referred to earlier.

The clean-up of the subscriber base is now complete and the focus remains on higher end prepaid customer acquisition. Nedjma is now growing its subscriber market share in line with its revenue market share. We await further clarity from the government on the 3G licencing process. Next slide please.

And finally, Tunisiana: Q3 saw a positive performance despite the on-going impact of political dynamics on the Tunisian economy and the lower number of visitors in a traditionally high period of tourism. This was in part offset by a significant increase in the Libyan refugees coming into the country. As a result, we have seen an increase in revenue and EBITDA, principally as a result of high gross margins and a commensurate effect on net profit. Market position of Tunisiana remains strong and we are awaiting further clarity on the 3G license process from the new government.

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

Carson Wolfer – *Qtel Group IR*

Thanks, Ajay. We can now move to questions and answers. Operator, will you now please explain to the participants how to ask questions?

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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 keypad and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, 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 your request, please press the hash key. Please stand by while we compile the question and answer list.

Your first question comes from Christian Kern from JP Morgan. Please ask your question.

Christian Kern - JP Morgan

Hi, there, it's Christian Kern from JP Morgan here. I just wanted to understand why you are pressing so hard on the revenue line at the moment. It seems you are sacrificing some of the margins thinking behind it, or is this imposed on you by the marketplace in the various countries? Thank you.

Ajay Bahri – Qtel Group – CFO

See, the quarter three with Ramadan is generally a quarter where promotions happen in all the markets so there's nothing very unusual about this, and probably you've seen some seasonal trends even in previous years. So part of this strategy is to ensure we have customer retention and part of that, of course, is the growth in revenue as well, so it's a combination of both. And

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since these are promotional activities, these are not likely to be repeated in quarter four. For Qatar operations, maybe Waleed, you want to add something?

Waleed Al-Sayed – *Qtel Qatar – COO*

Yes. Basically, in the Ramadan there is always a promotion that has to be done in the local market because it is a very special time for the people and also we have to set or to change the customer perception by referring to the cost of making calls and to be linked to their families. So it was a very big promotion that Qtel has done in Qatar which has affected us in terms of revenue and EBIDTA, but going forward in quarter four this will be compensated, especially that Qtel Qatar is ahead of the budget in both the revenue and EBITDA.

So this is something that happens every year. Maybe we were not as aggressive this year, as in the last year. This year, you know, the competition became more mature on Qatar and we have to demonstrate that we care about our customer and we give value to their money. I believe that in quarter four you will see that things are going to move according to our plan and we are going to still maintain being ahead of the budget for 2011.

Ajay Bahri – *Qtel Group – CFO*

I think Waleed has made an important point here in the sense that a lot of these promotions were in line with our expectations and budgeted and not a reaction just to what the market is doing. It's in line with our expectation. I would say the performance is more or less in line with expectation.

Christian Kern – *JP Morgan*

Understood, Ajay, and on the back of that you should feel quite comfortable for your existing guidance of 12 to 15% revenue and EBITDA growth. Any considerations to upgrade that?

Ajay Bahri – *Qtel Group – CFO*

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Upgrade the guidance. No, I think the guidance, as you know, Christian, we do have a policy of updating that, at least at a Qtel Group level, but as you can see the nine-month performance is ahead of the guidance and there is no reason to believe that the trend will change otherwise. But we don't officially update the guidance.

Christian Kern – *JP Morgan*

And what part of the group do you feel makes up for Indosat?

Ajay Bahri – *Qtel Group – CFO*

See, if you see the growth, we have growth in a lot of markets. Algeria has done well; Kuwait has done well, as two examples. Asiacell also has done well; so on a total basis the growth has been robust. Indosat has grown its market share and if you look at the Qtel level, we do get some benefit of FX there when you look at the growth in US Dollar terms. So we'd say most of our markets are doing well.

We have seen competitive pressure in Nawras, for example, in Oman, so a lot of the growth which you saw in the five years, this year has been very competitive, but apart from that I think all our operations are doing well. Tunisiana has done very well despite the, you know, challenges in the country. Palestine continues to grow their revenue. A little bit of seasonality impact in Palestine in Q3, but overall a positive performance we would say across the group.

Christian Kern – *JP Morgan*

Very helpful. Thank you so much.

Operator

Your next question comes from Kathleen Middlemiss from UBS. Please ask your question.

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Kathleen Middlemiss – UBS

Good day, gentlemen. Can you give us some guidance on your Capex for next year, please?

Ajay Bahri – Qtel Group – CFO

Normally we would give our guidance sometime next year and at the time we will give you guidance on our revenue, EBITDA as well as Capex.

Kathleen Middlemiss – UBS

Okay, for the full year next year. Okay, and I did see that minority payments were increased during this reporting period. Can you just explain why it was increased so much and how do you see that ending for the full year?

Ajay Bahri – Qtel Group – CFO

When you say minority payments which line item are you talking about? Financial statements, yes?

Kathleen Middlemiss – UBS

Correct, yes.

Ajay Bahri – Qtel Group – CFO

Okay. If you look at the last quarter, there is a one-off gain booked in Kuwait which is resulting from the acquisition of Tunisiana. When Tunisiana was earlier a joint venture, 50% consolidated, and the beginning of this year we acquired a controlling stake and it's fully consolidated. So the asset in Kuwait books was re-valued and the gain from that revaluation went to the shareholders

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of NMTC Kuwait. That benefit isn't showing to Qtel shareholders because when Qtel had bought NMTC in 2007 it had already re-valued Tunisiana. So the big amount of minority profit that you see relates to this revaluation of Tunisiana stake which is basically a non-cash profit.

Kathleen Middlemiss – UBS

Okay, thank you very much.

Operator

Your next question comes from Alex Kuznetsov from RBS. Please ask your question.

Alex Kuznetsov – RBS

Good afternoon. I would like to ask a couple of questions. First of all, I would like to double-check if 100% of the consideration for Tunisiana was paid in 2011, and since you do not report a cash flow statement if you can highlight changes in your working capital? And a second question is regarding IPO of Asiacell; could you highlight the major points of the IPO? What percentage of shares are you planning to place? I know that they regulate a minimum, but I thought you might consider increasing the percentage. And whether the entire cash consideration will come to your company?

Ajay Bahri – Qtel Group – CFO

Fair enough. I think as far as the first question is concerned, the acquisition of Tunisiana was done at the NMTC level and not at Qtel level, so you would probably see the cash flows at NMTC levels for that acquisition because the ownership is at NMTC level. What Qtel did was, did give a shareholder loan of \$220 million to support this acquisition and that's what you'll see in Qtel's standalone financial statements.

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As far as the IPO of Asiacell is concerned, we are in discussions with the regulator and the authorities in Iraq and that process and discussion is on-going right now. As you're aware, the licence requirements are to offer 25% of the company to the public and that's where we stand today in terms of the discussion. There were no further developments on that, but as things do develop further we would, at the right time, be making an announcement for that as well.

Alex Kuznetsov – RBS

One follow-up; is there any certain timing? I know initially you were supposed to place it by August I believe and then it was extended. Could you tell us the current timing of the IPO process?

Ajay Bahri – Qtel Group – CFO

There is no fixed timing as of now. As you know, it was supposed to be done by August of this year and there were a lot of regulatory issues, different laws, and interpretation of those laws is being discussed with the authorities. So those discussions are on-going right now and, like I said, once we have clarity definitely, you know, that'll be something which will be in the public domain at the right time.

Alex Kuznetsov – RBS

Thank you.

Operator

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

Maddy Singh – Morgan Stanley

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Yes, hi. I have a few questions on Wataniya. First of all, in the financial statements of Wataniya there is a line item called other operating expenses; can you please explain what those line items contain in them? And the second question is, there was a drop in depreciation for Wataniya as well quarter on quarter so I'm just wondering, what is the normal run rate I should expect for the D&A for Wataniya going forward? And a very quick question on Wataniya again; how much was the FX loss during the quarter for Wataniya? Thank you.

Ajay Bahri – *Qtel Group – CFO*

In fact, you picked up the right line item for your third question. The other operating expenses are in fact the line where the FX gains and losses are recorded. In addition to that, at least in this year, it's also part of the expenses related to the Tunisiana acquisition. With the change in IFRS expenses relative to acquisitions cannot be part of the acquisition cost starting this year, so that line item has these two major components.

So if you look at quarter one and two, you would see a slight positive or a slight negative there which is after taking into account these acquisition expenses, but there were indeed FX gains booked in those two quarters. So during the first in quarter three and you can see that from the FX movements between all the currencies, and part of the gain booked earlier was unrealised gain on the acquisition loan as well, which has been fully reversed in Q3.

And that piece of the FX gain and loss will not be impacting going forward, so you'll probably see more impact coming from the likes of Algeria going forward as far as the FX is concerned, and a little bit on outstanding loan with Qtel.

Maddy Singh – *Morgan Stanley*

So can I assume that the whole 7.4 million is FX loss?

Ajay Bahri – *Qtel Group – CFO*

What you see in this year is these are two major items over here for the quarter. This is the majority piece of this is the FX loss, yes, in Q3, yes.

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Maddy Singh – *Morgan Stanley*

Okay, all right.

Ajay Bahri – *Qtel Group – CFO*

As far as the drop in depreciation and amortisation is concerned, when the acquisition of Tunisiana was done you know we do a purchase price allocation where the purchase price is allocated to different intangibles and goodwill and on a provisional basis some amortisation of the purchase price is being done. This is likely to be finalised in Q4 and once that is finalised we'll affirm numbers on the amortisation of the PPS, and that's one of the prime reasons why you see depreciation and amortisation going up.

Maddy Singh – *Morgan Stanley*

Yes, it went up initially but then it has come down quarter on quarter. From second quarter to third quarter it has come down.

Ajay Bahri – *Qtel Group – CFO*

That's part of the adjustment which they've actually done on the purchase price allocation, but that process is still not fully completed. I think once we are done with Q4, because this is a process which is done by, with an independent auditor and reviewed by our auditors and finally closed out, I think in Q4 we'll be in a better position to give you the run rate.

Maddy Singh – *Morgan Stanley*

Okay, so I expect D&A to remain volatile, at least for next quarter.

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Ajay Bahri – *Qtel Group – CFO*

Not extremely volatile hopefully, but definitely by Q4 we'll have closed out the estimated PPA provisions. Then they'll come to firm numbers. The run rate will be fixed going forward then.

Maddy Singh – *Morgan Stanley*

Okay, thank you.

Operator

Your next question comes from Prithvi Devassy from HSBC. Please ask your question.

Prithvi Devassy – *HSBC*

Hi, good afternoon. I can see that the Capex for Indosat has increased to 30% of sales in 3Q 11. I think that is pretty much a jump, so how do you think it's going to increase this quarter?

Ajay Bahri – *Qtel Group – CFO*

Actually, Capex probably is not appropriate to see in a quarterly basis. There's always a timing issue in terms of when the spend happens, when the commitment happens. I think probably you should refer to the guidance, updated guidance given by Indosat in their call today and I think they're running in line with their earlier guidance, not much change from the updated guidance also.

Prithvi Devassy – *HSBC*

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Okay. And in Qatar, after losing customers straight for three to four quarters finally there is some net positive add. So is this kind of an industry phenomenon, or is it because of the promotions that you have launched, or what is exactly happening there?

Ajay Bahri – *Qtel Group – CFO*

I think it's likely a combination of both things we talked about and there's some stability in the market during the promotion.

Prithish Devassy – *HSBC*

So we can expect Vodafone also to increase, or you are stealing subscribers from them, or how is it actually?

Ajay Bahri – *Qtel Group – CFO*

See, the competitive dynamics no one can predict. However, I think some of the dynamics of last year are more stable this year. Maybe, Waleed, you want to add something?

Waleed Al-Sayed – *Qtel Qatar – COO*

Basically, when Vodafone enter the market the penetration was over, the market was over penetrated so basically Vodafone, to gain market share, they had to take from Qtel customers. However, we have demonstrated that we are in a very competitive situation and Qtel was a very, you know, providing the right quality and the right value for the money.

So we can see in the market that most of the customers that subscribe to the competitor, they are the long-term shareholder. And many of those customer we are winning back because of our new strategy and product lines and pricing, and we believe that this competition will continue to happen in that way. Vodafone will definitely gain more market share, but I think Qtel has demonstrated a very healthy competition in the local market and has maintained its majority

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market share in Qatar, and I think going forward Qtel will demonstrate that this it is going to continue to have the majority market share for a long time.

Pritish Devassy – HSBC

And one last question. I mean I could not hear properly about the increase in Kuwait fee. Can you again just a little bit explain about that?

Ajay Bahri - Qtel Group - CFO

Sure. Earlier what fee the operators are paying was a fee on the post-paid subscribers. Now that has been replaced by a lower fee on the total number allocated to the operators, which includes both pre-paid and post-paid, but a negative tax is a higher cost for the operators. For NMTC for example it's about US\$2million extra per month on the current number.

Pritish Devassy - HSBC

Okay, fine. Thank you.

Operator

Your next question comes from Mark Hammoud, Deutsche Bank.

Mark Hammoud – Deutsche Bank

Good afternoon, gentlemen. Maybe you say that the, what's the FX loss impact in Q3 2011 for Qtel, and is it booked under other income and expense, the net? The second thing, do you have handset subsidies in place in your key markets like Qatar, Kuwait, Oman to boost the subscription for data plans and broadband subscriptions? And the third question is more a request since this increasing focus on the broadband segment. I know you started to disclose the number of mobile

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broadband subscribers, but can we also have some colour on the data contribution for the mobile segment?

Ajay Bahri – *Qtel Group - CFO*

Okay, fair enough. The FX losses Q3 are part of the other income, and the 123 million that you see on negative coming in quarter three is where the FX loss affects it.

Mark Hammoud – *Deutsche Bank*

Sorry, the line is really bad. How much did you say?

Ajay Bahri – *Qtel Group - CFO*

The 123 million negative that you see for Q3 – 1 2 3 7 2 8 the number – that is the line item which has the FX loss built into that.

Mark Hammoud – *Deutsche Bank*

Is it the entire amount?

Ajay Bahri – *Qtel Group - CFO*

I would say that's one of the major amounts. It does have other items that effects the title called other, but one of the major amounts here is FX.

Mark Hammoud – *Deutsche Bank*

Okay.

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Ajay Bahri - Qtel Group - CFO

Handset subsidies are on different times, with different markets giving different handset subsidies. For example, in Kuwait they have been giving subsidies in quarter three, the start of the computer dynamics in the market, so I would say this is more related to the dynamics in the market than the timing. Waleed will comment on Qatar.

Waleed Al-Sayed – Qtel Qatar - COO

We do not have handset subsidies in Qatar, because again as Ajay said it depends on the market that you are playing in. Basically in Qatar, for example, there's a frequency of people changing the handsets, it doesn't give us, you know, such comfort of doing handset subsidy. However, for the low market through our partners in the market we do some sort of bundling where they subsidize the handsets for the margin that we pay them for the commission, and that's only happening on the low market. But mid and high value customers we don't do handset subsidy. Going forward in the future we don't know. This might change in the local markets, but this is something that we are calibrating with Qtel International to see whether this is going to be some sort of a group strategy going forward for handset subsidy.

Mark Hammoud - Deutsche Bank

Any other markets in Kuwait that you can think of, off the top of your head, where you have a subsidy?

Ajay Bahri – Qtel Group - CFO

Algeria. Algeria also has a handset subsidy, and on an overall basis the handset business is something we are looking on a group basis and seeing if there are synergies which the group can achieve by centralising the handset strategy. That's something high on the agenda at the Qtel

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International level and development, and that's definitely something we will share later date with you.

And the last question about the broadband, as you know we've added the wireless broadband, and look at the other request about the data usage on mobile, we'll see if we can provide that information. If we can contact you, we will consider that request, Mark.

Mark Hammoud – *Deutsch Bank*

Thank you.

Operator

Your next question comes from Richard Barker, Credit Suisse.

Richard Barker – *Credit Suisse*

Thanks very much. I'm sorry to do it, but I've probably got three, although hopefully they're quite brief. The first one, Ajay, is if you could just quickly run through what the major one-off items are in a quarter. I know you've talked already about the FX. I think there are a few other things which you whipped through quite quickly when you were going through country by country, so I just wondered if you could just go through those to make sure that I'm actually on top of all the major items there. That's the first one.

The second one which is quickly on Tunisia: is there any change in terms of what is happening to the remaining 25% stake in Tunisiana; whether you are considering maybe acquiring that or whether some other fate awaits it?

And just finally on the regulatory change in Kuwait, I just wonder if you could just clarify the basis on which this new charge is being levied. Is this a new charge that is payable every time you activate a new subscriber, or is it a monthly fee payable on all sim cards that are already active?

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And maybe if you could just give us some idea of the quantum on a person card basis of what that fee is, that'd be great. Thank you.

Ajay Bahri – *Qtel Group - CFO*

Sure. Definitely. Let me elaborate on the one-off items. I think the biggest one-off item in this quarter really is the promotional activity which is done across all the markets during Ramadan, and I think that is a major piece of the one-off items, and also in, I think, Qatar, as Waleed was alluding to. There's another minor one-off item in each of the market. I did give an example in Oman, for example. Certain recoveries are debts which are provided for in certain expenses, which they had provided for got reversed. The amount in the press release is 1.16 million Omani Rials for that, so on a big picture basis I would say these are the major one-off items which would be there.

Richard Barker – *Credit Suisse*

Did you mention something in Iraq earlier, sorry?

Ajay Bahri – *Qtel Group - CFO*

Well, in Iraq they had two issues, one of course was the marketing campaigns they've done, and there's a one-off provision of about - the bottom line is that Qtel is about \$4 million for that for the certain recoverable, which is not expected to be repeated going forward.

Richard Barker – *Credit Suisse*

So that's a recovery of something that was already provided against?

Ajay Bahri – *Qtel Group - CFO*

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It's been provided for in this quarter. It's a negative impact; it's a negative impact. So the ones in Nawras show positive impact, the Asiacell is a negative impact, and of course the promotional expenses across the group are a negative impact.

Richard Barker – *Credit Suisse*

Sure. Okay.

Ajay Bahri – *Qtel Group - CFO*

Now the second question was on Tunisia and the diluted 25% stake. That stake sits with the government, and I think it's up to the government to decide what they would like to do with the stake, and that's where its stand as of now. No further developments on that. The regulatory change in Kuwait really is that the fee is now payable on all allocated numbers, so if a number is allocated to you, whether you're using it or activating it or not, you still have to pay a fee on it. So it's not active customers. And unlike the earlier process where it was only on post-paid customers, it's now applicable to all the customers.

Richard Barker – *Credit Suisse*

Right, so it's a monthly fee per allocated number basically?

Ajay Bahri – *Qtel Group - CFO*

Precisely. And approximately the impact is about the net of the post-paid which is not being paid now is about US\$2 million, yes.

Richard Barker - *Credit Suisse*

Thank you very much.

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Operator

Your next question comes from Roshan Ranjit, Citi.

Roshan Ranjit – Citi

Yes, hi there. Just a quick question going back to the promotions. Obviously you had very strong net adds generally across the board this quarter and you obviously alluded to the point that you had seen seasonal promotions. Now are we going to see an element of phase-in of those promotions through the second half of the year, where obviously Q4 is heavily promoted? Are we seeing some of that promotion brought early into the Q3 period, so we may see a slight easing off in Q4, or will there be the usual heavy push in Q4 as well? Thank you.

Ajay Bahri – Qtel Group - CFO

The dynamics are different in each market actually, and, like in Qatar, Waleed has already said that the promotional activity was more focussed during the Ramadan season, which is behind us now, and some of the other markets, Q4 is a strong quarter, Indonesia being one example where Q4 is a strong quarter, and where competitive dynamics might result in promotions as well. So there's no one answer for this: each market will have a different dynamic. But generally in the region, during the Ramadan time, lots of promotions happened. We do have an Eid time coming in Q4 as well, which is a shorter period of time, and one will see some promotional activities in some markets during Eid time.

Roshan Ranjit – Citi

Great. Thank you.

Operator

Your next question comes from Deamon Guirdham, Generation Investment

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Damon Guirdham – *Generation Investment*

Hi there. It's Damon, rather than Deamon. Quick one on the net debt level, and firstly I should say congratulations on the very strong growth, which is really encouraging. But the net debt was up a couple of billion sequentially, and I understand there's been the licence payment in Iraq, your higher capex this quarter, but there's still something I can't quite get to the full change in the net debt. Has there been a significant move perhaps in the working capital side, or is there anything else, or do you think that it could be the FX issues that you stated? Because, if anything, your Indonesian debt should have been lower value in Rials at the end of this quarter, so I was a bit surprised by the move up in the net debt.

Ajay Bahri – *Qtel Group - CFO*

Okay, the net debt meant, of course, one of the biggest pieces of the net debt is the AsiaCell payment: we have taken a loan of \$250 million. In addition to that, when the financing of Wataniya was done, Tunisiana was done by Wataniya, there's a piece of debt produced later that time as well. These two are the major debt movement, in fact the reduction of debt at the Indosat level was because they've repaid some of their debt. So on an overall basis the net debt is also impacted by the cash payments that have been made by the group during this period. Wataniya Kuwait, for example, utilized some of its cash on hand to pay down the acquisition of Tunisiana. Plus in Q2 of this year dividends were declared and paid by all of subsidiaries; that has brought down the cash level as well. So on a net debt basis, a decrease in cash and an increase in debt combined effect of that is what you see.

Damon Guirdham – *Generation Investment*

So could some of the dividend outflows take place during Q3 maybe from a cash perspective? Is that maybe the piece I'm missing? Okay, I'll have a look at that. Just secondly, almost a request as a shareholder, because your Asiacecell business is important, but is relatively difficult for us to do our own due diligence on, it would be fantastic if you were as transparent as you possibly can

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be around ownership structures etc. You've alluded to this provision for 12 million of the recoverable, which won't be recoverable. The more information we can have around that business, the more value we can place upon it, because it is a valuable but somewhat non-transparent entity for us.

Ajay Bahri – *Qtel Group - CFO*

Fair enough. Let me just add one more point on the net debt side, that there was a payable due to the government from Qtel side which was paid in October, so in our net debt calculation that payment utilization has been offset in terms of our net cash available. So in the net debt calculation, it's not apparent from the balance sheet, the support balance sheet event, which is impacting the net debt.

Damon Guirdham – *Generation Investment*

But you've included it in the net debt?

Ajay Bahri – *Qtel Group - CFO*

That's right. We've included that as that line in the covenant that we have with the banks and how we report to the rating agencies. That's proven that we're looking at net debt, yes.

Damon Guirdham – *Generation Investment*

Fantastic. That's very helpful. Thank you.

Ajay Bahri – *Qtel Group - CFO*

And on the issuance side, I'm not sure whether the ownership structure itself is in public domain, but as you know the discussions on the IPO of this company are ongoing, and as and when the

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IPO takes place, there'll be a prospectus out as well, and the disclosure for a listed company automatically... the benefit of the disclosures of a listed company would be available once the IPO happens.

Damon Guirdham – *Generation Investment*

And the 12 million write-off of the receivable, was that to a related party in any way?

Ajay Bahri – *Qtel Group - CFO*

No. Indeed, this is something which is in public domain in Iraq. There's a bank over there which has gone into some trouble.

Damon Guirdham – *Generation Investment*

Understood.

Ajay Bahri – *Qtel Group - CFO*

And there are some legal cases being filed there, and since the matter is sub judicial right now we really don't want to comment on it. The matter is in the court for it. But as a matter of prudence we have taken some provisions for it.

Daemon Guirdham – *Generation Investment*

Very good. Thank you.

Operator

Your next question comes from Diala Hoteit, NBK Capital.

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Diala Hoteit – NBK Capital

Yes, hi. A follow-up on Iraq. As per officials from the Communication and Commissions in Iraq, they said that all mobile operators will be fined for missing the IPO deadline of 31st August, so how will this impact Asiacell? My second question will be on Tunisiana. We noted improvement in the EBITDA margin. Can we know what's the driver behind this improvement in the EBITDA margin?

Ajay Bahri – Qtel Group - CFO

Sure, definitely. As far as the IPO issue is concerned, I think all the information is in the public domain in terms of the comments made by CNC. I really can't add much to it apart from what has been said by the regulator. We'll wait for the determination on that. The EBITDA margin for Tunisiana has moved from 57% to 58% from quarter two to quarter three. In fact the improvement that we've seen in quarter two itself that I think I referred to the previous call, was the result of a lot of international class equities being generated after a lot of people from Libya moved into the country, so that has increased the revenue, as well as helped the EBITDA margins. This is obviously which is obviously not budgeted by the company either, so that was upside which has come as a result of the happenings in the region.

Diala Hoteit – NBK Capital

Okay. Thank you.

Operator

Your next question comes from Alex Kuznetsov, RBS.

Alex Kuznetsov - RBS

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Good afternoon again. Two more questions. First of all, I wanted to ask you if you have any targeted leverage ratio, and secondly, could you remind us your financial guidance for 2011?

Ajay Bahri - *Qtel Group - CFO*

Sure. Our target leverage ratio as we've publicly stated is in the region of 2.5 to 3 times EBITDA. That's the level which has been approved by Qtel board, and on an exceptional basis a short period can go a little higher if an acquisition's done, as long as we come back to that level, and as you can see we're well within the target levels. The guidance which we'd given for 2011 was a revenue increase of 8% to 13%, an EBITDA increase of a similar percentage on 2010 levels, and capital expenditure increase of 5% to 15%, reaching about 7.3 to 8 billion Qatar Rials

Alex Kuznetsov – *RBS*

Just to clarify, is it targeted leverage ratio, or is it maximum leverage ratio? And if it's...

Ajay Bahri – *Qtel Group - CFO*

The target level ratio 2.5 to 3 times is the range that the company's comfortable to be in. The maximum that you can touch any time is 3.5, although the bank governance are even higher than that, yes.

Alex Kuznetsov – *RBS*

Thank you.

Operator

Your next question comes from Simon Simonian, Shuaa Capital.

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Simon Simonian – *Shuaa Capital*

Good afternoon. A couple of questions. I know several analysts asked you on the Kuwait fee, I just want to clarify it became effective September 1? Second, you were mentioning that Kuwait seems to be the market where you are most active in handsets. I was wondering, would you say equipment sales for Kuwait is single digit rather than double digit? And third one, on Iraq, if you can just give us some colour on the competitive dynamic: are you seeing Korek more active since Orange joined as a partner? Thank you.

Ajay Bahri – *Qtel Group - CFO*

Effective date for the Kuwait fees was end of July, so you see a two-month impact in quarter three. On the handset sales, there's no fixed percentage for this. This changes with time, depending on different quarters, different handsets are pushed are targeting different marketing segments, so I really can't give you a percentage number there. But in quarter three definitely there was focus on handset sales in Kuwait. Computer Dynamics in Iraq are... Things are setting down in Iraq in terms of what Zain is doing, so there was a time period where Asiacell did take advantage of the management issues in Zain and two networks are combined together, but that is stabilising that so we expect some more competition. Let's put it this way, a stronger competition coming from the Zain side. Similarly, on the side of Korek also, although we haven't seen a very dramatic move as yet, but in time we do expect that the Orange and Korek combination to be competitive going forward.

Simon Simonian – *Shuaa Capital*

And one other, if I may? How about the dynamics in Kuwait with Viva?

Ajay Bahri – *Qtel Group - CFO*

You see, Viva, as you remember, when they launched operation, they had taken a very drastic action of cancelling incoming call charges, which still prevails in that market, and that was a pretty extreme step to start the operation with, which was basically followed by the other two operators. But they really didn't get any comprehensive benefit of that. I think after that the competitive

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dynamics have been there, but not as severe as that. One move that started initially. So nothing exceptional has happened in quarter three, but what we do see is that no more focus on handsets, where competition is, in a way, has to be responded to by Kuwait as well, and there's heavy competition in that market I would say now.

Simon Simonian – *Shuaa Capital*

Thank you very much.

Operator

Your next question comes from Maddy Singh, Morgan Stanley.

Maddy Singh – *Morgan Stanley*

Yes, hi. Just two follow-up questions on Wataniya. First, in Kuwait, this royalty payment requirement actually, is it possible, because it is charged on the number of... how many numbers you have got, so can you first tell me how many numbers actually you've got? And second, is it possible that you could return some numbers to the regulator, just to save them some cost, because I don't think you might be expecting any bumper subscriber addition in Kuwaiti market? And secondly, what happened to the Algerian Treaty Licence process? The last we heard, 23rd October, was the date they were supposed to do the auction or something. Is there any update on that? Thank you.

Ajay Bahri - *Qtel Group - CFO*

I think you make a valid point of extra numbers. We wouldn't want to hold them definitely and pay the fees to the government. But having said that, I think for the modelling purposes the \$2 million based on the current allocated numbers is a good indication for you to build your model on.

The Algeria Treaty Licence process, we're awaiting further clarification from the government now. As you know, the date was earlier announced, but now it has been delayed. The company is

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ready as far as it's concerned, to move ahead with the process. We just await the government's further notification on that.

Maddy Singh – *Morgan Stanley*

Once you get the licence, how long do you think it will take you to launch services in Algeria?

Ajay Bahri – *Qtel Group - CFO*

It's difficult to give a date off hand. It can be anything from three to six months, depending on the requirement of the licence, what you need to cover on a bare minimum. So unless the licence is really issued, it's difficult to give a commitment.

Maddy Singh – *Morgan Stanley*

I'm just asking from the preparedness of, you know, Wataniya point of view, rather than any, you know, regulatory requirement.

Ajay Bahri - *Qtel Group - CFO*

Well, providing this licence is issued, it seems the profit is ongoing; we are prepared for it. That's the way I'd like to put it.

Maddy Singh – *Morgan Stanley*

Okay. Thank you.

Operator

There are no further questions. Please continue.

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Carson Wolfer – Qtel Group IR

Thanks, operator, and thank you all for joining today's call. Please refer to the Qtel Investment Relations website for additional updates, or feel free to contact Investor Relations team if you need further information. We look forward to your future participation on our full year 2011 updates, the date for which we will announce in the New Year. 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 all disconnect.
