Q4 2011 & Full Year 2011 Batelco Group
Results Conference Call
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Corporate Speakers

• Anthony Mallis	SICO Bahrain	CEO
• Laila Danesh	FinMark Communications	Managing Director
• Shaikh Mohamed bin Isa Al Khalifa	Batelco	Group CEO
• Peter Kaliaropoulos	Batelco	CEO, Strategic Assignments
• Kataryna Stapleton	Batelco	Group CFO

Participants

• Ayub Ansari	TAIB Securities	Analyst
• Ranjan Sharma	JPMorgan	Analyst
• Maddy Singh	Morgan Stanley	Analyst
• Diala Hoteit	NBK Capital	Analyst
• Nishit Lakhotia	SICO	Analyst
• Matija Gergolet	Goldman Sachs	Analyst

PRESENTATION

Anthony Mallis: Good morning, and good afternoon, ladies and gentlemen, I'd like to welcome you to Batelco Group's Year-End 2011 Financial Results Call. We are again delighted at SICO to be hosting this call on behalf of the Group.

Today, I have the pleasure of introducing our speakers, Shaikh Mohamed bin Isa Al Khalifa, Group CEO, Mr. Peter Kaliaropoulos, Chief Executive Officer, Strategic Assignments and Ms. Kataryna Stapleton, Group Chief Financial Officer. Following their comments, the call will then be opened for questions from participants. And before the starting the call, the Group would like to make the standard forward-looking Safe Harbor statement. Thank you very much.

Laila Danesh: Thank you, Tony. Batelco Group notes that some of the forthcoming statements are expectations based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties. These statements may not be regarded as a representation of anticipated results, which will occur on the Group's expected objectives. The forward-looking statements are only valid until this date, and Batelco Group does not undertake to update these in any form.

With that, I would like to turn the floor over now to Shaikh Mohamed bin Isa Al Khalifa, Group CEO of Batelco.

Shaikh Mohamed bin Isa Al Khalifa: Okay. Thank you, Tony, for the introduction and to SICO for hosting today's call to discuss Batelco Group's year-end 2011 financial results. I would also like to thank each of you for taking the time to join me and the management team. I'm dialing in to you all from Davos today, so I will be taking you through some brief highlights of our year-end results before having to step off the call, leaving Peter and

Kataryna to walk you through the operational and financial results in greater detail, as well as to answer any questions that you may have.

Looking up here, we are pleased to have finished 2011 with sound financial results and strong operating performance as we continue to strengthen our presence and build our leadership across our markets of operation in the MENA region and India. We had been successful in executing our strategy, which is focused on balancing our performance and maintaining market leadership in mature markets such as Bahrain, with pursuing and realizing further growth across our overseas operations.

By way of a number key measures, this has been another positive year for the Group in which we have shown we can deliver to plan, in spite of strong competitive pressures across our markets of operation, for the benefit of our customers and shareholders are alike. In terms of subscriber numbers, we reached a record 11 million customers across our operations in line with our growth objectives and efforts to ad scale. We also ended the year in a strong financial position, as Kataryna will expand on.

Of particular note, is that [although] 2011, we maintained our ability to generate strong cash flows, which exceeded guidance for the year and continued to see Batelco Group rank among the leading regional operators in term of our ability to generate cash. Strong cash generation is essential in enabling us to pursue our expansion strategy for the future growth of the Group, whilst also allowing us to maintain our ability to meet obligations and deliver value for our shareholders.

For 2011, we are pleased to announce that the Board has recommended another substantial cash dividend to the general assembly of shareholders of BD57.6 million, which is equivalent to US$152.8 million, which represents 72% payout ratio at a value of 40 fils per share, of which 20 fils per share was already paid in July 2011.

Again, we see the Group topping the ranks of regional operators in turn of the dividend yields and comparative shareholder returns we are capable of delivering year after year through the prudent management of our operations and ongoing efforts to create value where we can. The overall healthy financial position of the Group underscored by these and other measures was also affirmed through the investment grade rating we received from two of the leading global credit rating agencies, Fitch, and Standard & Poor's rating services during the fourth quarter.

These were the first public credit rating issued to the Group, and served to reinforce the strength of our strategy, financial results and prospect for the future. They also helped to position us for the future and our efforts to achieve further profitable growth as we go forward across our current markets of operations and in other growing markets where we see opportunity.

With that, I thank you for your time today, ladies and gentlemen, and leave you in the capable hands of Kataryna and Peter to proceed with the remainder of the call. Kataryna will now take you through the presentation and the Group's financial performance of the year. Thank you very much.

Kataryna….

Kataryna Stapleton: Thank you, Shaikh Mohamed, and good afternoon to all participants. In order to facilitate the call for the year-end, we have actually prepared a PowerPoint presentation as well as enclosed details of our financial statement analysis. This should be in addition to the financial statements we have issued and uploaded on the 23rd of the month. As such, I propose to go through the presentation and will be referring to other financial materials as we go through the slides.

Moving onto the second slide, this is the forward-looking statement which was in line with what was read out by Laila. Hence, the most important start will be on our Group highlights on slide three. As was highlighted by Shaikh Mohamed, the Group reported gross revenues of BD327 million, a net profit of BD80 million. As of the end of the period, the Group had no debt and a significant cash position of BD108 million, up from BD87 million a year before.

International operations are now contributing a much more significant part to our revenues of 37% and our EBITDA being 31%. Again, we were very pleased to receive investment-grade ratings from S&P and Fitch during the last quarter. In terms of leading market positions both on Mobile, Internet and Fixed, Batelco Bahrain continues to lead and, as we will discuss in further slides, in terms of the Jordan, Kuwait and Saudi operations. Subscribers exceeded 11 million throughout the group of operations representing an overall 20% growth being 21% in mobile and 8% in broadband.

If we now turn onto slide five, the quarter four performance of the Group, the Group recorded a net profit of BD23.5 million as a result of cost optimization and one-off benefits. If you look at quarter-on-quarter, the revenue was nominally down by 1% mainly as a result of mobile declines in the local market which were partially offset by Internet and wholesale revenue upsides.

Total expenses including network operations, staff costs, other operating activities and depreciation increased by BD5 million, primarily in the network operating and other operating categories while staff costs and depreciation increased slightly.

If we look at some of the specifics, Batelco benefited from a credit note from the regulator as a result of some movements we made from the spectrum back in 2010, and as well we didn't have to book regulatory provisions, nor accounts receivable provisions as we did in quarter three. As such, the benefits from the cost optimization flew directly to the net profit, and we were delighted to report our best net profit for the year and the second best net profit in the last eight quarters.

If we now look at the full-year results on page six, for 2011 the Group reported gross revenues of BD327 million, a decrease of 4% from BD340.3 million the year before. The decline in annual Group revenue was as a result of 7% decrease in Mobile revenues, coming from the Bahrain operation as it was impacted by the entry of the third operator.

Similarly, the Group's wholesale revenues were down 6% year-on-year mainly as a result of declines in Carrier Relations and Wholesale Voice revenues in Bahrain. This has indeed been affected by substitution to Mobile. These declines were partially offset by very strong growth in wholesale data revenues.

If we look at Internet, Internet grew nominally by 1% for the year, with Datacoms and other revenue categories, which include ICT and equipment sales also reported growth year-on-year mainly 4% and 27% respectively. Fixed line revenues, as expected, declined year-on-year as noted previously, driven by continued Fixed Mobile substitution.

As outlined during the third quarter call, with revenues under pressure there has been significant focus on cost optimization and margin protection. This is evident when one compares the total expenses for the year. The total year-on-year increase was capped at BD5.1 million, representing 2% year-on-year change with all categories being in low single digits.

If I look now at the breakdown of these costs, which is outlined in the extra financial statements that we have issued, network operating expenses have increased 4% mainly as a result of increased telecom rentals in Kuwait to support growth in Datacom revenues.

There have been increases in support costs as our networks continue to expand, as well as cost of sales in ICT equipment. These increases were partially offset by declines in [out-payment] costs, as some of our revenues in wholesale have declined, as well as improvements through our rate negotiations.

Staff costs increased by a nominal 2%, which is in line with expected merit increases partially offset by continued staff optimization programs. Other operating costs increased 5% mostly as a result of one-off provisions for regulatory matters in Bahrain, as well as additional provisions for receivable and expected CPI increases in some other categories.

Depreciation, amortization charges decreased 4% year-on-year, as a result of a very much effective capital deployment program. As a result of the exchanges, EBITDA for the year was BD126 million or representing a 39% margin versus EBITDA of BD146.2 million for the year before. For the full year 2011, the Group reported net profits of BD80 million versus BD86.8 million the year before representing an 8% decline.

As noted, these results are in line with the guidance we have provided, with declines to revenues and profits an expected consequence of increased competition in Bahrain, which remains to-date our largest market.

Now, to provide more specifics, if you look at the next slide in terms of capital investments, since the telco industry is a CapEx intensive industry, we have provided on slide five an overview of the CapEx, which stood at [$27.3 million] for 2011, representing an 8.3% ratio. Now, this is a ratio which is well within telco benchmark.

As previously stated, we set up a number of cost improvement initiatives and one of them is a Group Procurement Office which oversees coordination of significant tenders for networks, IP and other purchases across the group of companies yielding benefits from synergies. Furthermore, the dual vendor strategy has also brought us benefits through additional [competitive retention].

The next slide shows the underlying strength of the Group's cash position, and its ability to continue to generate very strong cash flows. For the year, the free cash flow was at BD91.4 million, representing an impressive EBITDA conversion of 73%.

The Group also ended the year with substantial cash and bank balances of BD108 million, reflecting 24% increase year-on-year. And, as mentioned by Shaikh Mohamed, we closed out 2011 free of debt.

Importantly, in terms of the dividend distribution, we have included a slide which shows how much has been paid out over the last seven years. This includes the cash paid out as well as bonus shares that have been issued, being over US$1.2 billion an average payout of 71%.

As Shaikh Mohamed mentioned, the Board has also recommended a substantial three-year cash dividend of BD57.6 million to the general assembly of shareholders, which represents a 72% profit payout at a value of 40 fils per share, of which 20 fils per share was already paid during the third quarter of the year.

If I now turn to slide 11, which represents various companies throughout the region and the market-leading positions, and I will now look to explain some of the changes in subscriber numbers on slide 12. Looking across our operations individually, we saw significant progress in Jordan, which remains a key market for the Group and where our investment and commitment to the market are continuing to pay off.

Umniah grew its mobile customer base by 8% bringing its base to more than 2.3 million. Though we were very pleased to see as well is that Umniah grew its broadband user base by more than 36% for the year. As a result of phase one network expansion and ongoing efforts to bolster its share of broadband markets.

We expect even further strengthening of Umniah's performance in the upcoming rollout of 3G, in which the group has already invested JD50 million or US$70 million for the acquisition of its license. With the rollout of 3G services, Umniah will not only be better placed to compete for market share, it will also allow the company to tap into the highly lucrative post-paid data market.

In Kuwait, Qualitynet delivered growth of 4% in broadband customer numbers confirming its position as the market leader for total ICT solutions in Kuwait's Data Communication and Internet Services industry.

In spite of the situations throughout 2011 in Yemen, Sabafon registered 12% growth in its mobile customer base for the year, which now stands at over 4 million users. We expect the further strengthening of the company's performance going forward with the international gateway now being restored and the situation in the country stabilizing.

With regards to our Saudi operation, Atheeb grew its Voice and Data Services customer base to 114,000 for 2011 and 10% year-on-year increase. The company has also recently received approval from the Saudi Capital Market Authority for SAR1.2 billion capital increase, which will support plans for future growth and drive this success of a new strategic focus on business customer segments in the Saudi markets.

Finally, looking at the Bahrain markets, Batelco continued to maintain market leadership throughout 2011 in spite of what we said for some time, a very tough market condition and significant competitive pressures.

At year-end, we retained a leading market share of 44% in Mobile, despite a 4% decline in mobile customer numbers for the year. This decrease is in line with our expectations, and the natural consequence of a third mobile operator's entrance into the market. This entrance has now completed a full year of operations.

What we are proud of, is that despite the decline in [our] subscribers, we have been successful in maintaining a high value post paid and business customers through our ability to add value, innovate and provide a high level of customer service. Retention of high value customers is absolutely core to our strategy.

We are also pleased with the growth we are witnessing on Wireless Broadband Services customer base, which grew by more than 50% for 2011. This remains the corner stone of our strategy in this segment, and the investments we have made in our mobile network are now paying off.

If I now turn to slide 13, which provides you with a segmentation of our revenue. In line with the Group's diversification strategy, contribution from across our overseas operation also continued to growth both in absolute terms as well as in terms of percentages. At the year-end, the revenues from overseas operations after inter-segment eliminations represented 37% to 38%.

Furthermore, on the right-hand side, the pie chart shows you that whilst the Group is highly dependent on Mobile, which represents 46% of our revenue base, we are also now making inroads in Data.

The next slide provides you with a breakdown of Group profitability by segments. Whilst Bahrain has been impacted by competition, we continued to see growth in Umniah's profitability, as well in other countries we have seen the benefit of classifying STel into assets held for sale.

So, if I may conclude now on slide 15, which outlines the key ratios for the Group's financial performance. And without further delay, I would like now to open the call for questions.

Operator….

QUESTION AND ANSWER SESSION

Operator: Thank you.

(Operator Instructions)

We will now take our first question from Ayub Ansari from Time Securities. Please, go ahead.

Ayub Ansari: Yes, hello. Good evening, everyone. I just want to know -- there was a news flow regarding sharing of resources -- tower sharing regarding Batelco. So, could you just shed some light on that?

Peter Kaliaropoulos: Hi, it's Peter K. Very briefly we have said that part of a strategy is to basically realize more value from assets, which are not highly utilized in the Company -- non-core assets. We don't believe that a smart business model for the future is one that you are in all the real estate, you are in all the towers, you are in all the asset passive infrastructure. We believe the better business model for the future is one that we share that passive infrastructure with other operators.

So, we are looking for ways to monetize the towers. We are holding discussions with various interested parties, and we expect by mid-year this year to have a position in terms of either proceeding with the initiative or basically, if the value is not accretive enough, we will not pursue it. So, that's what we're up to.

Ayub Ansari: And can you give a ballpark figure of what kind of cost savings you're looking at?

Peter Kaliaropoulos: At this stage, I cannot, because we are going through the feasibility. What I can share with you is that we have about 1600 towers, and we are looking at the Telco Bahrain and Jordan first of all to be the first phase. There are about another 1100 towers in Saudi as part of our operation that can go into the mix.

So, we are starting with the two Umniah and Batelco Bahrain and we are looking at impact on the OpEx, impact in terms of the one-off value we may realize coming back. And, of course, the model can vary; the less upfront value we may derive, the lower operating cost in the future and vice versa. So, we are still going through the analysis at this point in time.

but as I said, right now in the Middle East, every telco owns its own towers and that is not smart model. When we get to the level of granularity that we are able to share in terms of our expectations upfront, we will be able to inform you, but right now we cannot.

Ayub Ansari: Okay.

Operator: Thank you. We will now take our next question from Ranjan Sharma at JPMorgan. Please, go ahead.

Ranjan Sharma: Hi, good afternoon, this is Ranjan Sharma from JPMorgan. Thank you for the call, and congratulations on a good set of numbers. I have two questions. First is, can you please shed some color on the one-off benefits that you have reported on the profitability? And also, if you can give us some highlights on the plan for 2012. Thank you.

Kataryna Stapleton: Yes, thank you for the question. In terms of the one-off benefits that have been reported, as I mentioned in the third quarter of 2011 we had to book some provisions, the one-off benefit included the reversal of some various license fees. The TRA has awarded Batelco a credit note of over BD1 million, which we were able to then reverse in the last quarter of 2011. In terms of providing guidance for 2012, this will be provided during the AGM on the 22nd of February.

Peter Kaliaropoulos: But if I can add to that allow me. Our strategy is not changing between 2011, 2012, 2013. The key drivers of creating value for our company are based on defending Bahrain and high-value customers. The second pillar is driving further diversification of our revenues and our customer base, and we are well underway of achieving that. Third, the priority of course for next year or this current year is cost leadership and managing our costs versus the revenue we are getting on a per customer basis.

And, of course, growing the business through mergers and acquisitions, because organic growth from all our existing operations will give us a very modest, very low single digits top line growth. So basically, the step change in revenue and profit will be through M&A. So, these are the four strategic pillars where we are basing our 2012 strategy and it’s a continuation of last year’s strategy.

Ranjan Sharma: Thank you. On the mergers and acquisitions, do you see yourself more centered in the Middle East and North Africa region, or would you just venture out into the East?

Peter Kaliaropoulos: We've said before that our M&A strategy is based on regional clusters; our Middle Eastern cluster, and our North African cluster, and India/Asia-Pac cluster. So that strategy is still the one we are pursuing to implement. There are very few opportunities in the Middle East and we are in discussion about all of these opportunities. And certainly, North Africa there are also a few opportunities as well as in Asia-Pac/India.

Again, it's far too early -- we are in discussions with a couple of companies, but it's far too early to be specific about the target, the region and the timing. However, what I want to be specific about is that we're not pursuing start-up investments -- greenfield. They are very dilutive. And in most markets around the world with very, very few exceptions, the levels of penetration are that high that breaking even five, six years later is not potentially the best shareholder strategy.

We are a dividend stock. Kataryna mentioned earlier, a history where we tie more than 70% dividend payouts from our profits. So, our strategy in terms of M&A is to acquire companies, which are mature with good cash flows, with contributions, with profits and dividends. So that's where we're focused. And again, when we get to the stage of a binding agreement, we will of course inform the market.

Ranjan Sharma: Thank you, that's most clear.

Operator: Thank you. We will now take our next question from Maddy Singh at Morgan Stanley. Pleas, go ahead.

Maddy Singh: Yes, hi. I have two questions, first is on Bahrain itself. Would you please shed some light on the competitive landscape in Bahrain currently? And by when would we expect to stop losing revenue share in the market? And secondly, in Saudi Arabia, I was just wondering what is your strategy going forward, especially given that the deal with Zain KSA has fallen off. So, what else can you do there, and how would you make your company in Saudi Arabia relevant? Thank you.

Peter Kaliaropoulos: Thank you. If I can take the questions -- it is Peter. Certainly, in Bahrain we expect further competitive intensity in the next 12 months. If you look at our customer growth in every product line, in every segment, in every geography, year-on-year the only real decline we had was that of the Bahraini market. One is simple to explain that was in the fixed market, but basically there is tremendous substitution between second fixed line and a mobile phone, so that in itself is not worrying us, because the level of broadband in fixed (inaudible) is fairly high. But we have also lost about 35,000 mobile customers year-on-year and that's predominantly prepaid.

Again, our strategy has been to defend the high-value customers, so the low 1 dinar -- the sort of $2, $3 customers who are very profit driven and lower loyalty, because all our losses are from the prepaid predominantly in Bahrain. If you also look at the impact of number portability, which we now head for about four or five months, we did, even if I say so, a very solid job in terms of retention, around about 1% of the monthly potential is attributable to number portability. And the analysis of that also shows is the low spending customers that we are losing.

So certainly, the strategy is to retain the medium to high spenders, and to do that of course with various campaigns with various handsets and offers and so on. If we'll -- reflect into 2012, we expect that competitive intensity to continue, but a very small impact. We are still market leaders with 44% mobile market share in Bahrain.

We expect a very small deviation in market share, around about maybe 1% to 2%. But, again, we expect the Mobile Data, the Broadband Data for mobile business to continue growing at the levels it has grown before. And from that point of view, we expect to be making it a quality of customer attraction rather than just general number of sales.

So, that's what we expect to happen in Bahrain, a little bit more competition in Mobile. We are seeing on the Data Networks -- Batelco offers a quite extensive proposition for data solutions to customers. We don't expect any high competitive intensity on international data networks at this point in time -- more of that potentially in late 2012, early 2013. So, very small market share and probably revenues flat to potentially from mobile business, a couple of percentage points below this year. But as Kataryna said, come February we will give you precise guidance.

If we talk a little about KSA, yes the Zain deal was not the right deal for our company and we made comments about that in the past the way it evolved, but we do run our business in Saudi, it's Atheeb. We are offering broadband connectivity to residential customers. So what we're doing -- and there's a rights issue that's been approved by the Board to invest further in Atheeb to grow that part of the business.

We tried to transform Atheeb to be not just a B to C consumer led organization. We have invested in the last few months in building a sales force and building a product portfolio of data products for SMEs and corporates. So we are trying to retransform and reposition to a B2B organization, chasing more high-value customers, managed networks, data hosting type of services. So, that's where we see in the immediate term the future will be for us. So, we're concentrating on building capability within Atheeb.

Of course, not to contribute to speculation, but should Zain KSA again be available in the market under a different proposition, of course we will look at it, because we do see value being a mobile operator. However, the WiMAX operation right now will keep us busy for the next 12 months in Saudi. And unless there is a major acquisition -- we don't believe (inaudible) will sell. So unless Zain decides to test the market again, of course, we will express an interest, but the opportunity has to be very different to what it was a few months ago.

Maddy Singh: I also heard that in Saudi Arabia starting 2013 there will be a universal licensing in place, and then actually any operator could offer any service. They won't actually need separate licenses for that. Is that something which is right?

Peter Kaliaropoulos: Correct. Our preliminary understanding is no different to yours, and that has upside for us. Of course -- because basically for a niche entrance like Atheeb being able to have a universal license, it's great news. However, again we are pragmatic, we're now spectrum -- we have to buy spectrum, for example, for LTE and so on.

So, we're not quite sure having a universal license is one thing and then, whatever prices we have to pay for spectrum remains to be seen. So, we are optimistic, but we are pragmatic -- cautiously pragmatic in terms of what investments we might have to make. So, we are basically keeping our watch in brief on the license changes in Saudi.

Maddy Singh: Okay. Thank you.

Operator: Thank you. We will now take the next question from Diala Hoteit at NBK Capital. Please, go ahead.

Diala Hoteit: Yes, hi. I was just wondering, what's your strategy in Jordan now that you took the 3G license? We noticed that revenue in Jordan grew by 1% in full year 2011 compared to 10% in 2010. So, it seems competition is increasing in Jordan. And now with 3G license, I just think you are late in the 3G license market. How will you deal with existing telecom operators?

Peter Kaliaropoulos: If I can elaborate on this -- it's Peter, again. First of all, when you look at the customer base in Jordan that we had year-on-year for Umniah, we grew our customer base by 8%. So certainly, competition is always intensifying, but we are winning a number of subscribers. So, that's great news.

The revenue growth was not as high simply because interconnect rates by the regulator would change between carriers. So although we did more minutes, basically revenues did not grow as much. So, it was the repricing by the regulator, which impacted probably about three or four percentage points in terms of our revenue.

So from that point of view, we still believe we have a very decent business, if we basically normalize the results. It's a company that delivers 37% EBITDA, very strong cash flows and it has established a very sound brand, which now is moving up the value chain to become more relevant to postpaid customers to small business customers. Because the first five or six years Umniah was busy establishing itself and establishing its network against very intense competition.

The 3G strategy was very simple from day one. As you have been following our stock NBK for many years, we did exactly the same approach -- we implemented the same approach in Bahrain. We are quite happy to allow Zain to launch first -- can you hear us? Are we still on the call by the way?

Diala Hoteit: Yes, yes.

Peter Kaliaropoulos: Okay, sorry. So again, as we did in Bahrain, 3G, our good colleagues -- our good competitors launched first, 18 months later we launched 3G in the first month. We had as many 3G customers as Zain Bahrain had over 18 months. We took the same approach in Jordan. We believe in Jordan the number of handsets about a-year-and-a-half ago, the price points and the sophistication of mobile data applications were not right for us to lead in 3G.

So, we are very grateful that our competitors are educating the market, what is 3G, what are the benefits of 3G. The penetration of smartphones is increasing, because it's still in the low 20s. So, we believe the timing is right rather than investing CapEx two the years ago, we (inaudible) depreciation. We still believe there is growth in mobile data. The mobile data Tsunami hasn't hit Jordan yet. So, again, as we have today 31% market share in the voice side of the business, we feel fairly confident we will be achieving the same despite the later entry into the market with a new product.

Diala Hoteit: Okay. Thank you.

Operator: Thank you. We will now take our next question from Nishit Lakhotia at SICO. Please, go ahead.

Nishit Lakhotia: Hi. Good afternoon, Peter, and Kataryna. I have a few questions, one on the dividend payment. While we see the rare reduction in dividend payment this year, the telcos total dividend has been reducing each year for the past two years despite the Company having negligible to zero debt. The (inaudible) for this is, the cost of capital is higher, RO is lower, regular income per shareholders are getting impacted.

So, my question is, why is not management leveraging the Company for CapEx or investment requirements for just 3G license or -- and rollout by Umniah, or for that matter, equity infusion into Atheeb, and as well maintain at least 45 fils dividend payout -- annual payout?

This would (inaudible) only to an additional 7.2 million dinar in extra payout, which would not be a problem with zero debt BD108 million in cash. And even Batelco's cash flow has been strong at BD91 million, which is very comforting factor for maintaining annual dividends at 45 fils. So, that's my one question on the dividend front.

My second question is on STel. We know the company has been classified as a asset held for sale since second quarter 2011 on Batelco's book. This is done only if there is an intention to sell, and when Batelco has more or less identified a potential buyer for the same and talks are at an advanced stage. But it has been close to a year now, and since this reclassification.

And you will notice STel has more current assets now from non-current. So, what is the tentative timeline by the management when we can expect the sale to happen in 2012? And additionally, after the unsuccessful bid for Zain KSA, is the management rethinking on the strategy for India in STel [sale]?

Those are my two questions, and the final is on Etihad Atheeb. Well, although there has been some operating level improvement in December quarter, we still remain concerned on the significant losses that the company is incurring currently at the net level. In fact, the recent external auditor qualification on Etihad Atheeb highlights the risk of the company's ability to remain a going concern, which I quote states that, "The Company may be unable to realize its assets and discharge its liabilities into normal course of business."

Batelco now has a total equity exposure of approximately BD32.7 million towards Atheeb, and BD39 million as on third quarter financials in guarantees has been provided. So, what's the management strategy in turning this around, because it's happening very slowly and it could be still eroding every quarter-on-quarter? So when can this breakeven happen, what timeline and when can Batelco realize its value out of this investment? Thank you.

Peter Kaliaropoulos: Lots of questions in there, Nishit, but I will try and sort of answer as many as I can, and I will ask Kataryna to help me as well. Dividend payouts, if you look at the facts and you look at slide nine and what we presented; over seven years the average payout is 71% and this year's yield will be above 10%. We believe our Board is a very responsible board, justifying higher payouts than 70% and 10% yields even in today's world, we don't believe it will be responsible.

So, certainly it's a shareholder matter, but holding payout to 70% and double-digit yield is very, very sound, and we would like to -- [no] many other companies that can do that. So, I don't think we see the same concern that you may see. In fact, we as management have this debate always that we think we would like to see dividend payout to be of course less, so we can keep the cash and invest in other acquisitions. But as I said, 70% is a very good track record, and is not going to change.

You also mentioned in terms of keeping cash for CapEx and so on. Again, we've been thoroughly responsible in terms of CapEx as a percentage of revenue. And, again, if you look at the last two years, the last four years on slides -- I don't know what slide it is, but I think it is slide seven. Slide seven. We've been investing around about 9% to 9.5%.

And we think, again, it's a matter of finding the right balance. It is not technology that wins you customers, it's marketing and distribution, [rent] capability, promotions that wins you customers. So spending too much CapEx when it is not necessary is not smart.

So we've been running the business on 9% to 9.5% CapEx for the last four years. And, of course, investments in new technology whether it's 3G or LTE and so on, because you got spectrum payments that will introduce an abnormality in that particular year.

But, again, if you look across the CapEx, we don't want to invest more than 10%, 10.5% in the business going forward. We need to have the best marketing people to (inaudible) the assets and get the best return for it. That's the way we -- as I said we are managing our business and try and get the right returns.

In terms of -- I will go to Atheeb and then I will go to STel. And let me know at the end if I missed anything. In terms of Atheeb, the rights issue has been approved by the extraordinary general meeting. All the shareholders have committed -- the founding shareholders to put -- inject the extra cash required. And as I said earlier, the strategy with Atheeb has been predominantly a consumer company.

The outward difference between consumers and business customers is massive. The sales and marketing effort is not massive, so we have started a transformation from quarter four to push the company more and more in B2B. We recruited [50] new sales people. We got a NOC organized. We are coming up with marketing propositions. The emphasis with Atheeb is more on acquiring business customers and improving the quality of revenues to a customer.

Also, I'm not sure if you followed the stock exchange, but we've been able to negotiate various debts we had to some suppliers and potentially, it is a massive impact of the debt of the company, running into I think the number -- and I don't have the information right in front of me, but I think it's in the order of about US$70 million to US$80 million basically that's been waived, this was existing debt towards suppliers, we had some issues and we negotiated with them.

So, Atheeb is coming away with a lower cost structure. Atheeb needs working capital to reposition itself in the business market. We still have the challenges with our regulator. And there is legal disputing result in terms of compensation, because four or three years we have not been allowed to terminate international traffic, which was in our business plan.

So, the situation is improving. And I think you are going to find out when you see the next few quarter results, we expect a more positive outcome for Atheeb going forward. But, again, it's a niche mobile data proposition for us. There's discussions going on potentially about migration to LTE and so on, but that's all future. We are very focused in trying to make the company breakeven.

You asked for a deadline, we are working towards the end of 2013 to breakeven with a new rights issue. So, we feel comfortable at this point in time, unless the market dramatically changes -- and there is bundling from the incumbent, which they have started doing anyway. Unless something dramatic happens, we are aiming towards the end of 2013 to break even. And we believe the cash flow from the existing operations on the rights issue will pay I guess to that point in time.

Your last question, I think related to strategy in India and STel. Quite rightly, under the international accounting standards it is an asset held for sale. There is a lot of discussion going on in negotiations. As I mentioned earlier, we don't basically reveal anything until we are in position to be in binding agreements and realize value from the asset.

So, again, you have got to be patient. And certainly, our external auditors, if we don't comply with international accounting standards, will flag that. Our auditors are very much aware where we are up to, and we comply with all the standards. But we do believe by the end of 2012 that asset -- Batelco would have realized value.

Let me also head to that. That does not mean exit from India. We see strategically in our growth plans, the Indian market to be important to us. We've said this again before and repeating myself that we are looking, as the market will consolidate and grow at the same time, to find ourselves in a position to be a part of that market in the years to come, but maybe not necessarily through STel, through another vehicle. All that, again, will play out, we believe by the end of this year.

Kataryna Stapleton: And just to answer, Nishit, to your questions about Atheeb infusion, which is outlined in our cash flow. As we have stated in previous financial statements in the notes -- I believe we have got four or five at the end of the quarter. We said that shareholders will provide a temporary cash infusion until the (inaudible) is completed. So, that is in line with what we had previously reported. And, finally, a question about classifying STel in current assets, it is done in accordance with IFRS 5.

Nishit Lakhotia: Okay, fine. Thanks a lot, Kataryna, and Peter. I appreciate it.

Peter Kaliaropoulos: Thank you.

Operator: We will now take our next question from Matija Gergolet at Goldman Sachs. Please. go ahead.

Matija Gergolet: Yes, hello. Good afternoon, it's Matija from Goldman Sachs. So, congratulations, on the results. I have basically a question about your Q4. So you have now shrinking -- year-on-year margins were falling during the first three quarters. I noticed for [Q4], they are almost at the same level as they were in Q4 last year, and now we are talking 41 versus for 42.

I mean, which areas of the business in particular were resilient in the fourth quarter, because -- and particularly compared to the previous part of the year? This will be my first question. The second question -- in case you provide it, if you could give some financial guidance about 2012. And the third question just to finish off on the Atheeb, if you could just remind us what could be your maximum cash outflow for Atheeb over say the next year.

Peter Kaliaropoulos: Okay. Maybe I can talk a little bit about the business resilience. And the numbers. I will ask Kataryna to talk about the quarter-on-quarter comparisons. First of all, in Bahrain for the first two or three quarter this year, retention of high-value customers doesn't come for nothing, it does cost. It cost in marketing, in handsets in call center, in high levels of service.

So, certainly in Bahrain we invested more than the first three quarters. The retention levels were high. And, for example, in quarter four, handsets subsidies were not at anywhere near the levels that we had for the first three quarters. So, that has helped the numbers in terms of the cost and the revenue side of the business.

Also, contributions from our business in Yemen, contributions from our business in Jordan in quarter four; there has been a healthy growth. For example, Kataryna mentioned earlier, we are over 4 million customers now in Sabafon in Yemen, but basically for about five months the company had [IDD] access to the rest of the world. Because of the conflict in various other situations, it was only a domestic company on its revenue Yemen only. So, that restriction has now been lifted.

So, the performance coming out from that part of the world, the performance coming out from 25,000 broadband customers in Jordan that we have under our WiMAX business, and the overall retention of high-value customers across Bahrain has contributed to that revenue mix and cost mix.

And I'm not sure, Kataryna, if you want to add more in terms of the numbers.

Kataryna Stapleton: Certainly, quarter four last year versus quarter four this year, if you look at the expense and the focus on controlling these expenses, network operating expenses were flat. And this being a significant part of our cost structure that was a very pleasing achievement for us. In terms of the staff costs, there has been only a slight increase of 9%, which is about BD1.2 million. However, this was offset by other operating expenses reducing. So, that's contributed to the uplift in the quarter-on-quarter net profit.

Again, if you compare quarter three this year versus quarter four -- sorry, last year versus quarter four, as I explained during the call, there was a marginal increase in cost. So that focus on cost optimization is contributing to offset some of the declines in revenue.

Peter Kaliaropoulos: In terms of the guidance we mentioned earlier, at the Annual General Meeting in February -- and I can't remember the exact date --

Kataryna Stapleton: -- 22nd.

Peter Kaliaropoulos: 22nd of February we will provide guidance for the market. So, we will make the information available. Again, please bear with us. We shared that -- and I think if you compared the guidance we gave you last February with the results we are mentioning today, you will find -- you will be pleasantly surprised that we are a bit conservative on the cash. But in terms of revenue decline and EBITDA decline, we are almost exactly to what we said were going to be.

The last question was the Atheeb -- if you could repeat the Atheeb cash contribution over the next -- our share. First of all, it's the contribution we are making to the rights issue, which is, I think there is BD1.175 billion out of which we are contributing 15% of that. That's the cash we are claiming to inject in the company now and breakeven.

Unless the company grows faster and we're more successful in the business market and we have to fund our growth, we will be more than happy, but at this point in time, it's the percentage of the rights issue that we are injecting.

And as I've mentioned earlier, there has been guidance given by the company to the stock exchange, the fact that we have lower debt that also feeds into lower contingent liability from us. So, our overall exposure which I mentioned is BD32 million that is coming down. And, again, at the next quarter results, we will have more precise figures. So, [no more] cash at this stage from the rights issue and marginally less exposure on debt than what we had last quarter.

Matija Gergolet: Okay. It makes sense. Very clear. Okay, thank you.

Operator: As there are no further questions in the queue that will conclude today's question-and-answer session. I will now hand the call back over to your host for any additional or closing remarks. Thank you.

Peter Kaliaropoulos: Unless there are no other questions, we thank you for the interest you've shown in understanding our results for last year and for the second quarterly call. I'd like to take, of course, the opportunity to thank SICO for hosting the call, and of course FinMark for facilitating the process as well. We are always happy to answer additional questions, please send them by e-mail or either directly, or to other people you are dealing with. And we look forward to keeping you informed on the developments on the next quarter. So, thank you very much.