

Batelco Group
Q1 Results Conference Call
May 22, 2013

Operator: Ladies and gentlemen, welcome to the Batelco First Quarter 2013 Results Conference Call on the 22 of May, 2013. Throughout today's recorded presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulty here in the presentation, please press the star, followed by the zero, on your telephone for operator assistance.

I will now hand the conference over to Mr. Matija Gergolet from Goldman Sachs, the host for today's conference call. Please go ahead, sir.

Matija Gergolet: Yes. Hello, and good afternoon, ladies and gentlemen, and welcome to the Batelco Group First Quarter 2013 Financial Results Call. Goldman Sachs is delighted again to be hosting this call on behalf of Batelco, and today I have the pleasure of introducing our speakers, which will be Mr. Peter Kaliaropoulos, Group COO, and Mr. Marco Regnier, the CFO of the Group.

Following the comments, the call will be then open for questions from the participants. But, before making the call, the Group would like to make the standard forward-looking Safe Harbor statement.

Laila Danesh: Thank you, Matija. 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'd now like to turn the floor over to Peter.

Peter Kaliaropoulos: Thank you, Laila, and thank you, Matija, for the introduction, and to Goldman Sachs for hosting today's call. Of course, I'd like to thank everyone who's participating today for your continued interest in the Batelco Group and our activities.

Following a few remarks that I will make the next few minutes, Marco will walk you through the presentation in detail and discuss the results and performance for the first quarter.

Before getting started, however, I'd like to take the opportunity to thank Shaikh Mohamed bin Isa Al Khalifa for his contributions to the Group over the last nine years as both Board Director and Deputy Chairman and Group CEO. As you were aware, there was a press statement issued yesterday, and Shaikh Mohamed is no longer with us. We certainly appreciated his leadership and guidance, and we wish him and his family tremendous success in the future.

As you may be aware, there is a new management structure that's been put in place to lead the operation until the appointment of a new Group Chief Executive. I am fortunate enough to be appointed in the newly created role of the Chief Operating Officer, and a supervisory committee, comprised of three longstanding Board members of the Group, has been established. This is an experienced team of Board Directors who will work closely with myself and the CEOs of each of our operations.

In essence, it is business as usual, and together we will continue to move forward to implement the Group's strategy and the plans we put in place for the effective management of our assets. I would like to dedicate the remainder of this call and the Q&A to discuss the results and performance, and should you have any further questions about the management changes, please address them to us separately, offline, and we will respond to them.

Now, if I can turn to the performance for the first quarter of 2013, we did remain focused on executing our strategy, which is really about two priorities. First of all, becoming as competitive as possible across our businesses and working to effectively strengthen the operations and achieve profitable growth. We are pleased to say that we're making steady progress on each of these fronts. During the quarter, we continued our restructuring activities, especially in Bahrain, where our efforts to rationalize our cost structure is essential to our ability to maintain market leadership, as well as to grow both the top and the bottom line. We're looking ahead to 2014, when we expect to begin to see the benefits of these initiatives.

In terms of our subscriber base, despite aggressive competition in Bahrain and across every other market that we operate, we reported growth in subscribers, ending the period with more than 7.9 million customers across the six markets. This represents a 15% increase year-over-year and a 1% increase since last quarter. And growth was

supported by strong performance in mobile and broadband, especially from Umniah, Jordan, where the 3.7-gigahertz rollout continues, and in Yemen, where a more stable political situation has supported growth over the past year.

We're also very pleased that, in Bahrain, broadband continued to grow, as did the mobile subscriber numbers, for two consecutive quarters now. This supports our market share retention, which is a priority for us in Bahrain, and reflects our success in maintaining customer loyalty through quality, service, and innovation. In fact, during the quarter, we became the first operator in Bahrain to introduce the long-awaited 4G LTE service for which we expect significant demand in the coming months.

As you know, on the 3rd of April, we also completed the acquisition of a number of companies from Cable and Wireless. We have been extremely focused on this transaction and its completion. It's a real milestone for the Group, and it takes us into a new chapter. We have emerged as an international telecommunication operator, now being present in 16 markets. As we said before, this transaction is accretive. There are strong cash generative businesses from which we expect to derive value from the second quarter. We are currently focused on ensuring that we effectively integrate our new businesses into the Group and that we add size, scale and reach in every opportunity we can.

In addition to an expanded customer base and a more diversified revenue stream, we believe there are also great synergies to be gained through the pooling of resources, technologies, and expertise, which we're hard at work doing so that we not only emerge bigger but more competitive. Turning to our financial performance, which Marco will expand upon, for the period, results were again impacted by the ongoing and aggressive competition, especially in Bahrain. The Group's overall financial position has been robust. We ended the quarter with strong cash and bank balances and an investment-grade rating.

As you know, we also announced the successful pricing of a \$650 million seven-year bond, which is the inaugural bond, and was extremely well received by international investors across the Middle East, Europe, and Asia. The bond was quickly subscribed and priced at an attractive spread, both very good measures of the confidence the global markets have in the Batelco Group, our strategy, and the prospects for the future. This is certainly an exciting and busy time for us as we continue to do everything we can to maintain market leadership and achieve growth in our existing markets and to extract value from the new assets. We do look forward to updating you on the progress we make in the coming months.

With that, I will now turn to Marco to take you through the presentation and some of the key details about the financial performance of the Group over the first quarter. Marco.

Marco Regnier: Thank you very much, Peter. Welcome, everybody. I will go through the details of the first quarter results, the highlights to start with. We need to note that there is no Monaco and Islands result included in Q1 since we have done the acquisition just after the end of the quarter.

So, the revenue for Q1 at BD71 million is down quarter-on-quarter and year-on-year, but is in line with what was planned for the first quarter of 2013. The EBITDA of BD22 million gives a 31% margin. The net profit at BD13 million is also lower due to significant positive one-offs that happened in Q4 2012. We will discuss that a bit further.

There's a very healthy cash balance, like Peter said. We finished the quarter with BD76 million. And this is despite the fact that we've paid BD14.4 million of dividend plus another BD3 million to minorities. So, we finished the quarter with healthy cash and circumstances.

The international operations, they contribute for 42% of the revenue now. This is growing. The Group subscribers, as Peter mentioned, at 7.9 million represent a growth quarter-on-quarter and an interesting growth of 15% versus last year. Two important events, I would say three important events covered quickly by Peter, we actually launched 4G in Bahrain in the first quarter. This was well received. It was a first in Bahrain. We were the first operator to do so. We also acquired the operations of Cable and Wireless, like it was mentioned, for BD570 million, sorry, \$570 million. The acquisition of Cable and Wireless' Monaco and Island cluster is done in two phases. The first phase represent 10 markets overall, including a minority stake in Monaco Telecom. The second phase will be focusing on a majority stake in Monaco Telecom, which we give ourselves about 12 months to complete that phase.

A note to mention, the first phase was planned also to include the island of Seychelles. This completion has been delayed and should be completing in the next few months.

If we go to the P&L quickly, the gross revenue, as I mentioned, at BD71 million was planned according to that level. Again, pressure in Bahrain, but what we can see now in the first few months of the year is that this pressure, or this revenue decline, is now stabilizing versus what we observed in the last two or three years. The margin, the gross margin remain at 71%, quite healthy. If we look at the staff cost and compare to

what happened at the end of last year, the end of last year included an important one-off related to the redundancy costs we announced restructuring programme and took a full hit in 2012, BD7.7 million in 2012 belong, in fact, to 2013 for redundancy packages of people that will leave this year.

When we look at the non-staff OpEx, one of the reasons why it looks like it increased dramatically versus last year is because, in 2012, what happened, there were some significant positive one-offs at the end of the year. For example, there were a couple of litigations with TRA that were reversed. We had provided for those litigations. And finally, it turned out to be positive for us. This represented about BD6 million, and also some debt, bad debt reversal. So, what you see in terms of non-staff OpEx is not a significant increase at all. It's essentially because of one-offs last year. So, we finished the quarter with 31% margin, and we finish with a net profit just below 20% at BD13.4 million.

Another, maybe mention here, is the non-operating income or expense. What we book there is income from associates. In this case, one of the reasons why it has increased versus last year, it's because Sabafon has a positive BD1 million impact in the first quarter versus the estimated profit that we had booked in the previous month.

If we move to the next page, slide number six, as mentioned a few minutes ago, Bahrain represents now 58% of the total revenue of the Group. And again, this is before the Monaco and Islands acquisition. To give you an idea, when the Monaco and Islands acquisition will be completed, if we complete phase one and phase two, the Bahrain revenue will be around 35%, 37% of the whole Group.

So, today, the fact that Bahrain is experiencing very intense competition creates some sort of a dependency on that market, representing still 58% of our revenue. But, with the acquisition, and this is one of the rationales of this acquisition, Bahrain will represent about a third, a bit more than a third of the whole Group. You can see that Jordan represents 31%, and the other countries together about 10% of the revenue.

If you go to slide seven, slide seven you can see that the revenue split between mobile, fixed-line, Internet, data, wholesale and other remains pretty much the same versus last year, maybe a little mention that a few more handsets may be necessary now in order to attract customers essentially here in the market in Bahrain. It's also the case in Jordan. So, that's why you can see the section "Other" increasing a bit.

If you go on the slide number eight in terms of CapEx and cash flow, maybe the most important point to mention here, there's a major difference between Q1 2012 and Q1 2013. Just a reminder, in 2012, this was related to the fact that we acquired a license in Jordan, the 3G license in Jordan, which that was clearly a one-off in 2012. Despite the fact that, as I said before, despite the fact that the revenue was under pressure still in Q1 for Bahrain, we finished the period with a healthy cash flow of 76 healthy net cash, sorry, of BD76 million.

Maybe one other mention is that, at the end of the month of March, we did draw down on a bridge facility of \$525 million. This was before we completed our bond issuance later -- well, actually at the beginning of the month of May. So, if you see major variances in cash and short-term liability, it's related to a bridge drawdown of \$525 million at the end of March.

If you look on slide number 10, you have an idea of how the subscribers varied during the quarters and versus last year. You can see an interesting growth in Sabafon, 21%. Otherwise, we can see a pretty much -- a pretty stable with slight growth in the other operation of the Group.

If you go on page 12.

Peter Kaliaropoulos: --Marco, very -- yes, very briefly, if I can interject, 12 and 13 we've covered before, and they're also part of the information we presented to potential bond investors during the road show. It reflects the overall step one and step two of the opportunity to acquire a number of the Cable and Wireless companies. The results that you see on slide 12 in the top left-hand corner, those numbers are based on March 12 numbers out of Cable and Wireless. So, they're not exactly one-on-one-going forward, but it'll be a very, very similar numbers I think, going forward, but not exactly the same. The slide on 13 shows that the strategy that we embarked on to increase the scale and the scope of the business in fact we are delivering because, basically, we will increase our combined revenues to just over 1.3 billion, a customer base over 12 million, and also we will gain various synergies that we also have put in the prospectus, about \$36 million, and also some other benefits in terms of procurement, technology transfer, and various other skills within the Group and centers of excellence.

So, really, 12 and 13 just reemphasizes the strategy we've been pursuing. And the next slide...

Marco Regnier: --Number 14--.

Peter Kaliaropoulos: I'll ask Marco to offer some guidance.

Marco Regnier: Yes. In terms of guidance after these results of Q1, we're happy to say that, for the first time, we'll be reporting revenue of about \$1 billion. In terms of guidance, that would represent a double-digit increase versus last year. In terms of EBITDA, again, we're looking for double-digit increase. In terms of net profit, we will remain, as it was mentioned in the previous guidance, double-digit decline. The reason for that is, despite the fact that we're adding operations of Monaco and Islands; we are not planning to add Monaco Telecom before the end of the year. We are planning to add Seychelles somewhere during the year, and we also have the other islands nine months of the year only.

So, keep in mind that we don't have the full effect of the acquisition of phase one and the eventual phase two, but we do have the financing in place. We have a \$650 million bond that has been put in place at the beginning of the month of May. So, the fact that we have the interest related to that bond, and the fact that we don't benefit from the profit and revenue from all the islands, makes it look like the same, pretty much the same in terms of net profit.

The CapEx to revenue ratio will remain around 13%. This is in line with what we mentioned before, and a free cash flow now planned to be increased at around \$130 million. Keep in mind, again, that because we did have the discussion internally about the incremental impact of the Monaco and Islands, the Monaco and Islands impact will be seen fully in 2014 when the financing will be put in place but when we will benefit totally from the revenue, from the cash flow, the EBITDA, and the net profit. So, this is not the case in 2013 yet, but we did our first reporting for the month of April. We can now say that. And overall, the Islands are starting to contribute nicely to both our P&L and our balance sheet.

Peter Kaliaropoulos: Thank you, Marco. Well, ladies and gentlemen, if there are any questions, please let us know. We'll try and answer every one of them.

Operator: Thank you, sir. If any participant would like to ask a question, please press the star, followed by the one, on your telephone. If you wish to cancel this request, please press the star, followed by the two. Your questions will be polled in the order they are received, and there will be a short pause while participants register for a question.

The first question comes from Ranjan Sharma from JP Morgan. Please state your question.

Ranjan Sharma: Hi, good afternoon, it's Ranjan Sharma from JP Morgan. One quick question, if I may. If I'm not mistaken, I came across this news recently that the telecom regulator in Bahrain has designated Viva as a dominant player in the -- for termination services. Can you share with us your view of what this means for the marketplace in Bahrain? Thank you.

Peter Kaliaropoulos: Certainly it's good news for Batelco, because basically the fact that Viva has now built volume, they're not allowed to offer spot pricing, or differential pricing, to overseas carriers who terminate traffic. So, from that point of view, it is a positive impact for us because we expect to regain some of the volumes, because the quality of our network we believe is of a better standard than Viva's. So, from that point of view, it does affect us in a positive way.

Ranjan Sharma: And if I'm understanding correct that there was a symmetrical termination rates in Bahrain, or

Peter Kaliaropoulos: Sorry, Ranjan, that has been the case from many, many years ago, certainly that I recall back about six, seven years ago, so there's always been symmetrical, that's for the domestic interconnect. But, for the international interconnect, termination rates were different. And again, when you have a new entrant in the marketplace, they're allowed, the regulator allows them to offer differential pricing for terminating traffic whilst Batelco's rates were always regulated as a dominant player. Now that they're also coming under the same regulatory scrutiny; that means their prices again will be regulated, and it will be published, and they don't have the flexibility to do any variable pricing. So, from that point of view, hopefully we should regain some of the terminating traffic back to Batelco.

Ranjan Sharma: Great. Thank you so much.

Peter Kaliaropoulos: Thank you.

Operator: The next question comes from Houda Boustanji from Pyramid Research. Please state your question.

Houda Bostanji: Hello, Houda Bostanji from Pyramid Research. Thank you for the call, and thank you for the presentation. I have, if I may, a couple of questions. The first concerns the fixed broadband subscriber base, which has been declining since a couple of years. Is the business segment experiencing the same decline? If you could share with us your fixed broadband subscribers market share and how you are planning to address this decline.

And my second question concerns the LTE. Could you please share with us your first experience after the launch of LTE and your future services LTE strategy? Thank you.

Peter Kaliaropoulos: Houda, hi. I'll try and answer a couple of questions, and then I'll also ask Marco to help us. I think your first question about broadband, our broadband customer base at the end of quarter one at the fixed level were about 22,400 customers. *[It was clarified after the call that Batelco Bahrain had 46,000 Fixed Broadband subscribers at 31 March 2013.]*

And if you looked at the previous quarter, it was almost the same. So, in terms of fixed broadband, we have not been growing or declining, so for us it's fairly steady. Your question about residential versus business, we have been more successful with high value residential customers and business customers. So, our market share is much higher for the business community because, again, we have long-term contracts with business customers. We have fiber to a number of business locations. So, the quality of our broadband service and the contractual terms have allowed us to retain basically our broadband business. So, we don't have in front of us the market share figures for each segment, but we can find those for you separately after the call.

Your second question about LTE, certainly LTE has been launched with the existing frequencies we have. The auction, we expect the auction to be announced sometime this year. There are still some more details to be worked out about when and how many companies will be allowed to compete. So, on the existing spectrum, the take-up is limited, and also the number of handsets with 4G comparable handsets at this point in time, it's limited numbers. So, it's early days yet, and I think if we give you any numbers, there will not be demonstrably different to the 3G general uptake.

So, I think wait for another quarter. It's very early days for us, but it's more driven by 4G handsets than anything else at this point in time.

Houda Bostanji: Okay, thank you for your answers.

Peter Kaliaropoulos: Thank you.

Operator: Once again, if you would like to ask a question, please press the star, followed by the one, on your telephone. To cancel this request, please press the star, followed by the two.

Matija Gergolet: Can I ask a question? It's Matija Gergolet from Goldman Sachs.

Peter Kaliaropoulos: Please.

Matija Gergolet: Yes. With the rest of the acquisitions of the outstanding assets in the Seychelles and Monaco, could you give us a little bit more of, say, Peter, about when you would expect them to be closed? And then also, just on the acquisition of the assets, I see you also have some assets in Afghanistan. Could you tell us more about what you have there, please?

Peter Kaliaropoulos: ~~Okay.~~ If we take Seychelles, as Marco said earlier, we're going through due process. We don't expect any adverse finding in terms of regulatory approval and various approvals from other authorities. It is taking a little bit longer, but again, in the agreement we have with Cable and Wireless, we had nine months from the 3rd of April to complete. So, we're very confident that, certainly in that time period, which is by year-end, this transaction will have completed. Hopefully we can do it in the next two months but, as I said, we've allowed ourselves till the year-end.

In terms of Monaco, we always anticipated complexity with the Monaco transaction, and that's why both companies have given 12 months opportunity, and there was an option in place and structured to actually allow for different outcomes. At this point in time, Cable and Wireless ~~Kevin Wallace~~ is leading the discussions, quite rightly, with the various authorities. Once we reach a definitive agreement ~~on what needs there are~~ ~~outcome~~ for ~~the~~ Monaco Telecom, we will make an announcement. But, at this point in time, it's still a work in progress.

Matija Gergolet: Okay. And on Afghanistan?

Peter Kaliaropoulos: Right. Afghanistan is trading as owned, ~~Roshan~~ which is owned by Monaco Telecom. They have about a third of the equity. They're a shareholder with about 36.7%. So, that's managed out of Monaco Telecom. Our shareholding, I think at this point in time, is sort of single digits, about 6%, ~~7%~~, ~~5% to 6%~~. So, again, it's part of us acquiring 25% of Monaco Telecom, of the company that owns the 55% of Monaco Telecom, and indirectly then we have the shareholding in Roshan. But, we're not actively involved at this point in time neither with Monaco Telecom nor with Roshan in Afghanistan. We're just passive investors at this point in time, which is all described in the step one transaction. That was always anticipated. And because of the various complexities in the approvals, we allowed together with Cable and Wireless, ~~both Kevin Wallace and us~~ ~~allowed~~ a 12-month period to resolve them. If some of these complexities get resolved sooner, one way or the other, we will come back to the market and make a definitive statement.

Matija Gergolet: Okay, thank you.

Peter Kaliaropoulos: Thank you, Matija.

Operator: There appear to be no further questions. Please continue with any other points you wish to raise.

| Peter Kaliaropoulos: ~~Look, again,~~ let me thank all the participants for the interest their showing in our company. We do appreciate your questions this afternoon. And if there are any other questions you wish answers for, please send us e-mails or to our Investment Relations team and we will handle those. Again, I'd like to thank you for this afternoon's contribution, and again Goldman Sachs and, Matija, yourself in particular, thank you so much for hosting the call.

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