

**Lightspeed submission in response to the  
Telecommunications Regulatory Authority  
(TRA) Consultation Paper on**

**"Cost of Capital"**

**Issued on  
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Paper on "Cost of Capital"***

Lightspeed welcomes the opportunity to submit its response on the TRA consultation paper on Cost of Capital hereinafter referred to as the "Consultation Paper".

Lightspeed supports the TRA main objective stated in the Consultation Paper which is to set the appropriate level of the nominal cost of capital and therefore the rate of return applicable for regulated telecommunications services in the Kingdom of Bahrain.

Applying such a cost of capital methodology to Batelco and to Zain will ensure on the long run that regulated services provided by Batelco and Zain in the Bahraini telecommunications market will be priced in a fair and non discriminatory manner whether on the wholesale or retail level.

Lightspeed is therefore submitting its answers on the following questions raised by the TRA throughout the Consultation Paper

**Q1) Do you agree with the capital structure proposed by TRA?  
Please elaborate**

Lightspeed supports and agrees with the TRA proposition to estimate the WACC based on an equity only capital structure, A 100% equity-financed structure as the absence of any corporate taxes in Bahrain indicates that the optimal capital structure is likely to be close to 100% equity.

**Q2) Do you agree with the risk-free rates proposed by TRA under the base-case and alternative scenarios? Please elaborate**

Lightspeed supports and agrees with the TRA proposition to use a range for the nominal risk-free rate of 3.2–3.7%, based on yields on US Treasury bonds which reflects headroom over spot rates to allow for uncertainty in financial markets.

**Q3) Do you agree with the country risk premium proposed by TRA? Please elaborate.**

Lightspeed rejects the TRA proposition to add a country risk premium of 150bp to the required returns under the base-case scenario of an internationally diversified investor. Lightspeed sees that adding 100 BP as country risk premium is more reasonable and will reflect the

average country risk premium before the Financial crisis (50 BP) and after the financial crisis (150 BP)

**Q4) Do you agree with the ERP proposed by TRA? Please elaborate.**

Lightspeed agrees with the TRA proposition to consider the appropriate range for the ERP is 5.1–6.1% which is based on an estimated range of 4.1–5.1% for the world ERP, a 50bp premium for the effects of financial turmoil, and a 50bp premium for the relative illiquidity of the Bahraini equity market compared with more mature equity markets.

**Q5) Do you agree with the equity betas proposed by TRA? Please elaborate.**

Lightspeed agrees with the TRA proposition to consider the equity betas range of 0.55–0.70 which puts approximately equal weight on direct estimates (which range from 0.40 to 0.70) and estimates from comparator companies (which range from 0.55 to 0.60).

**Q6) Do you agree with the point selection within the range? Please elaborate.**

Lightspeed sees that the mid points of the ranges under the base-case is the most suitable way to calculate the WACC which results in the nominal cost of capital of 8% for both fixed and mobile telecommunications services regulated in Bahrain

**Summary of the cost of capital parameters—base-case scenario after modification**

<b>Parameter</b>	<b>Low</b>	<b>Mid Point</b>	<b>High</b>
Nominal risk-free rate (%)	3.20		3.70
Country risk premium (%) 100 BP	1.00		1.00
ERP (%)	5.10		6.10
Asset beta	0.55		0.70
Equity beta	0.55		0.70
Cost of equity (%)	7.51		9.47
WACC (nominal, %)	<b>7.00</b>	<b>7.99</b>	<b>8.97</b>