

Earnings Conference Call Transcript

**Event: Bharti Airtel Limited first quarter ended June 30, 2007
Earnings Conference Call**

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Bharti Airtel Limited first quarter ended June 30, 2007 Earnings Call

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PRESENTATION**Meenakshi – Moderator**

Good afternoon ladies and gentlemen. I am Meenakshi, the moderator for this conference. Welcome to the Bharti Airtel Limited first quarter ended June 30, 2007 Earnings Call. For the duration of the presentation, all participant lines will be in the listen-only mode. After the presentation, the question and answer session will be conducted for international participants connected to Airtel International Center. After that, a similar question and answer session will be conducted for the participants in India. Now, I hand over to Ms. Sonal Kapasi, Head - Investor Relations, to initiate the proceedings. Thank you and over to you Ms. Kapasi.

Sonal Kapasi – Head, Investor Relations – Bharti Airtel Ltd

Thank you Meenakshi. A very warm welcome to all the participants who have dialed into the earnings call of Bharti Airtel Limited for the quarter ended June 30, 2007 results. I hope all of you must be in receipt of the results. The same is available on our web site www.bhartiairtel.in. Present with me on the call today are members of the senior management. We propose to commence this call with opening remarks by Mr. Sunil Bharti Mittal and Mr. Akhil Gupta after which the floor will be open for Q&A. Before I hand over the call to Mr. Mittal, I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. I now hand over the call to Mr. Sunil Mittal. Thank You.

Sunil Bharti Mittal – Chairman & Group CEO – Bharti Enterprises Ltd

Thank you Sonal. Let me greet all the investors who have joined us on this call for the Q1 '08 results of Bharti Airtel Ltd. I am here in the board room with Akhil Gupta, Manoj Kohli, the three presidents of the three SBUs, S. L. Narayanan and Devan Khanna who will be here after my opening remarks and Akhil's details on Bharti's financials to answer any questions that may come on your mind.

Once again it has been a great quarter that has gone by for the telecom industry. The robust growth continues. The quarter ended June 30, built on the huge rollout that the operators had put out in the nation and for the first time the subscriber base has now touched 230 million customers. The wireless segment of the industry, of course, continued the strongest

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momentum and continues on its growth trajectory and more importantly has now expanded its reach far and wide in more towns and villages than ever before. The growth is truly remarkable if you will notice the facts, wireless subscribed base has now crossed 180 million customers making India the third largest and heading on to being the second largest mobile base anywhere in the world. The wireless segment alone in the last quarter added 19 million new subscribers creating another record of sorts. This has been made possible due to extensive rollouts that the operators have taken in which Airtel has taken the lead, and also the support received from all agencies of the government who have given us expeditious clearances in rolling out our network.

On some of the policy fronts the topical discussion has been around the policy on spectrum allocation and it is our firm belief that the government will strongly stand behind the spectrum policy to support the existing operators who have taken the lead and risk in building India's robust telecom network, and we have no doubt that the current policy on 2G which is to support operators for their growth needs will continue. There have, of course, been talks around the 3G spectrum. We await the final outcome of the policy. Here again, we are very confident that the operators who have already built networks will be given the chance to move into 3G seamlessly. Of course, there may be some limited auction or there may be some minimum prices that are being discussed to be set off, but I have no doubt that the government will consider the claim of the existing operators as we move forward.

We, of course, reiterate our commitment in improving the quality of service as and when spectrum keeps getting allocated, lowering cost from time to time and more importantly rolling out these affordable services in far and wide areas of India, which are currently not served.

Before I talk about our company, Bharti Airtel, I would like to add that with the overall teledensity of 20% India is still one of the lowest penetrated countries anywhere in the world indicating a huge potential that still remains to be tapped, and I am confident that the coming months will continue to see robust additions on the current base.

Let me now turn to Bharti Airtel and some of the key developments at the company level for the quarter ended June 30, 2007. The company's customer base was close to around 45 million at the end of the quarter with 43 million mobile customers and about 2 million fixed line broadband customers. Our company added about 6 million wireless customers in the quarter and the customer market share expanded to almost 24% at the end of June up from 23% in March 2007 and 21% at the same time March 2006 further extending our lead in the marketplace. I must say that given the competitive intensity that the industry is facing, this is a remarkable achievement by the management team at Airtel. I would of course like to offer my congratulations for a very effective rollout of distribution, which is key to the success of gaining market leadership. The market gains clearly demonstrate that we are rolling our distribution network as aggressively as we are rolling our physical network.

The company is clearly emerging as one of the strongest telecom players, not just in the country but is now being recognized as one of the leading telecom operators in the region and more importantly is now a part of the top 10 in-country wireless operators anywhere in the world. We continue to lay deep emphasis on our customer focus and innovation, which to our mind are the key to increase market share and sustain our leadership.

The key highlights of the quarter ended June 30, 2007 were revenues of Rs. 59 billion, EBIDTA of Rs. 24 billion, cash profit of Rs. 26 billion and a net income of Rs. 15 billion. Another important update would be on the tower business and I would like to update you on our plans on de-merger of assets, constituting passive infrastructure of mobile towers into a 100% subsidiary of Bharti Airtel called Bharti Infratel Limited. We have now obtained approval from the stock exchanges and have since filed the scheme of de-merger with the Delhi High court. The date for the meetings of the creditors and shareholders have been fixed and we expect to get the approval in due course of time. We have already appointed an independent management team constituted by some of our most competent managers to run this business as a completely independent SBU. With over 40,000 owned towers and over 65,000 expected to be built by March 2008, Bharti Infratel will be the biggest tower company anywhere in the world. Of course, we will keep you updated on the progress made on this front from time to time.

I must also mention that the company's good work has not gone unnoticed. The world has looked at what we are doing in this space and how we are serving the vital needs of the Indian telecom customers, and I would like to draw attention to some of the recent accolades that are noteworthy. The company was ranked third globally for best returns to the shareholders by Business Week Magazine, the Infotech 100 list in July 2007. Airtel was also chosen as the second most trusted service brand in India at the prestigious Most Trusted Brands 2007 survey conducted by the Economic Times Brand Equity. Bharti Airtel won the fourth Global IT Excellence Award for its outsourcing arrangement with Nortel in May 2007. In fact the outsourcing of Bharti is now being actively followed by many other Indian and international operators.

In closing I must mention that successful companies like Airtel are also now doing a lot of work in the community programs. The CSR execution of Bharti is in full gear. Bharti Airtel contributes and manages its CSR programs through the Bharti Foundation with generous contributions from time to time. In responding to the call by the prime minister earlier in the year, Bharti continues to develop its program for providing education to the underprivileged in villages where it is building primary schools at a fast pace. It is the position of the Bharti management and the board that we will continue to support more social programs to support the communities that we serve and more importantly also look at giving opportunities for both employment and entrepreneurship for the underprivileged sections of the society.

Akhil will now take you through the detailed financial and operations performance of the company during the quarter. Thank you.

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Akhil Gupta – Group Lead Director - Telecom

Thank you Sunil. Thank you all for taking time to join us on this earning call. I hope you have received the quarterly report and have had a chance to go through that. The last quarter, I think, has truly been a landmark quarter for the telecom industry in India. India as you know is now the third largest country in terms of telecom and wireless customers after China and USA. As we speak India's pace of growth in terms of net adds has already surpassed that of China with the net add for the month of June exceeding 7 million. With the acceleration in the subscriber base, we believe that India will become the second largest wireless country in the world within perhaps a year's timeframe. I am pleased that Airtel is one of the frontrunners in this stride as it is very evident from the operational highlights of the results.

On the highlights of the results for the quarter for our company, we continue to record another very strong financial performance in this quarter accelerating our leadership position in a highly competitive market. Our total customer base as Sunil mentioned has now increased to 45 million. The significant part was that the company's wireless customer base has increased from 21.1% to 23.5% over a year. We have emerged as the undisputed market leader based on our market share. The significant part is that in the last quarter the incremental market share was over 29%. We added approximately 20 million customers during the past year and approximately 6 million wireless customers in the quarter ended June 2007.

The total minutes carried on our network gross of intersegment eliminations was 69 billion, which is a very healthy 15% increase as compared to the last quarter and almost double over the same quarter last year. During this quarter, we expanded our coverage significantly in mobile services. We added 6,500 new sites taking our overall site count to over 45,000. The company has now established its presence in 4,855 census towns and over 2,43,000 non-census towns and villages. This expansion has enabled the mobile population coverage to improve from 46% to 62% over the last year and from 59 to 62% on a quarter-to-quarter basis. In line with our expanding network reach, as Sunil mentioned, the distribution network now comprises of nearly 650,000 outlets. We are also extremely pleased with the development on our other business segments and non-mobile businesses. In broadband and telephony, we added over 100,000 very high quality customers in this quarter, and we increased our DSL penetration to over 33%. We also increased our ARPU, which is relevant in the B&T segment to Rs.1121 that is almost US \$28 per subscriber per month, which proves a very clear focus on high quality and high ARPU customers.

In carriers, the minutes increase by 95% year-on-year, and in the last quarter we added over 3100 km of optic fibre across the country. Our Call Home service, launched across United States of America last quarter, has recorded over 100,000 customers already. In the enterprise services, corporate segment, we now have over 1,000 key corporate clients in the country.

Let me briefly talk about the financial performance for this quarter. I am very pleased that the last quarter was an extremely satisfactory quarter in terms of our financial performance as well. The consolidated revenue for the quarter was just over Rs.59 billion, which represented an increase of 53% over the corresponding quarter of last year. In line with the reduction in churn, from this quarter we have now started amortizing the upfront fee that we receive on prepaid lifetime products over 24 months instead of over 18 months as was being done till last quarter. But for this, the revenue for the quarter would have been higher by approximately Rs.700 million of which approximately Rs.650 million pertains to customers, which were acquired before April 2007. The consolidated EBIDTA was Rs.24 billion representing an increase of 63%. The EBIDTA margin for the quarter was 41.4% up from 39% a year back. The cash profits similarly were at Rs.26 billion, which was an increase of 97% over the corresponding previous period quarter. Favorable exchange rate movements both on US dollar and Japanese Yen has resulted in gains on translation and derivative accounting. The net income for the quarter was over Rs.15 billion, which represents doubling of the net profit over the corresponding period last year. This results in an earnings per share of almost Rs.8 for the quarter. Our total Capital expenditure during this quarter was Rs.37 billion that is approximately US \$916 million, which is pretty much in line with our Capex guidance given last quarter for the full year of US\$ 3.3-3.5 billion. The mobile segment contributed 80% of the overall revenue in the quarter, 78% to EBIDTA and 88% of the capital expenditure went towards mobile in the quarter.

To recap just a few key ratios, the return on equity over the year moved from 29.6% at the end of June 2006 to 40.8% at the end of quarter ended June 2007, while the return on capital employed improved from 24% to 29.3% over the same period. I also want to point out that FIN 48 standard dealing with uncertain tax positions was introduced from this quarter under US GAAP and with that introduction certain borderline uncertain tax positions, which amounted to approximately Rs.1.12 billion have been transferred to retained earnings out of abundant caution as is prescribed under that standard.

On the balance sheet front, we had a net debt of Rs.32.7 billion approximately US \$800 million. The movement in few of the other ratios has been net debt to EBIDTA improved from 0.86 times to 0.39 times. Debt equity ratio improved from 0.42 to 0.22 and the interest coverage improved from 21 times to 33 times.

In the end, let me summarize that this has been an extremely satisfying quarter. We are excited about the growth of momentum in the Indian Telecom market and the fact that we are not only equipped in every which way to capture this growth but are actually leading this growth in the front.

Let me hand over the floor back to the moderator now to start the question and answer session. Thank you.

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Meenakshi - Moderator

Thank you very much sir. I now hand over the proceedings to Diana at Airtel International Centre to conduct the question and answer session for the international participants. After this we will have a question and answer session for the participants in India. Over to you, Diana.

Diana - Moderator

Thank you Meenakshi. At this time International participants may press "01" if you would like to ask a question. On pressing "01", participants will get a chance to present a question on a first-in-line basis. International participants who wish to ask questions may press "01" now. Please press "01". The first question comes from Sundeep Bihani of Lehman Brothers, Hong Kong.

Sundeep Bihani – Lehman Brothers – Hong Kong

Good Afternoon. This is Sundeep Bihani from Lehman Brothers. Congratulations on continuing good performance. I just have three questions. First of all, you seem to have made 150 bps of EBIDTA margin gains on your wireless side. How sustainable would that be and do you see that sort of reversing out as you go into more rural areas and as you accelerate your rollout?

The second is on the non-voice revenues. It seems to have been dropping for now almost eight to nine quarters almost at the level we last saw in March 2005, where would you see the inflection point where you suddenly start seeing revenues go to China-like levels at 20% to 22% of revenues?

The third question is on access and interconnection charges, 190 bps decline as a percentage of revenue, what is driving it? Thanks for the clarification.

Sanjay Kapoor - President - Mobile Services

Sundeep - Hi this is Sanjay Kapoor.

First of all your question on 1.5% points improvement on the EBIDTA. We have seen in the recent past, generally in the ballpark of 39-40% seems sustainable and we have always maintained that even when we go to rural India we are not seeing a decline in the usage over there in terms of minutes. We have by and large sustained our minutes pretty well, and we think that at least in the near future these ballparks are seemingly sustainable.

On the non-voice side, let me say that there is a bit of correction that has happened or a bit of deviation in the way we account for it from what is visible. All the revenues that we collect by way of selling any top-up packages which have a fixed fee does not get shown as SMS revenue for example, they get shown outside that. So probably that is not reflective. But as we are penetrating into rural India, obviously the usage of SMS and the use of English as a language is not very

pervasive and there is a bit of natural decline that is happening, but the other value added services on the non-voice side, for example music, ring back tones have a universal language. These are very popular and will continue to proliferate into rural India as well.

Just touching upon your comparison with some of the international operators, let me tell you that most of the operators who have 13% to 14% of their revenues coming from non-voice essentially have about 85-88% coming out of SMS and the only difference between India and some of those countries is that the charges that they levy on SMS is far higher than the charges that get levied here in India. So I do not believe with 2G in place and the way we are priced in India, we will have 15 or 16% revenues in a hurry coming from non-voice.

Akhil Gupta – Group Lead Director - Telecom

Sundeep this is Akhil. On the access charges, I think one thing which is happening is we are experiencing more and more traffic which is on-net and on-net of two types, one is with the increase in our market share we are seeing more traffic moving from Airtel to Airtel, on the mobile side in particular, and also in terms of the carriage. As we expand our network from the NLD side and as we get more and more points of interconnect with BSNL, we are seeing a lot of traffic being retained in turn. So when you see the overall consolidated figure obviously there is a knock off and there is some improvement in the margin there. That is something, which we have, as a strategy taken up. We believe we would like over a period of time to keep on having more of on-net traffic and that is something which we are working on. As I mentioned in my address, almost 3100 km we have added on fibre across the country this year, that is clearly a step in that direction.

Sundeep Bihani – Lehman Brothers – Hong Kong

Thank you Akhil. Sanjay can I clarify on non-voice. When do we see the inflection point when India also starts seeing value added services as a percentage of revenue start growing materially?

Sanjay Kapoor - President - Mobile Services

I think as a percentage of revenues with 2G, 2.5G as a technology, the ballparks will be around 9 or 10%. I do not see them jumping to 15%.

Sundeep Bihani – Lehman Brothers – Hong Kong

Thank you.

Diana – Moderator

Thank you sir. The next question, we have Mr. Suresh Mahadevan of UBS Hong Kong.

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Suresh – UBS – Hong Kong

Good evening. Thanks a lot for the call, I just have a few questions.

I want to understand how bad is the spectrum shortage currently and any thoughts from you on possible solution in terms of time frame particularly?

Second question is on your effective tax rate, which seems to have gone up quite substantially this quarter. Just wanted to see if you can give any broad guidance for the financial year '08 and potentially '09 I think?

The third question is related to your Capex. As you increase population coverage, what do you think Capex is going to be in the coming years? Are we going to see 3.5 billion again or do you foresee that number coming down in FY09 FY10? Thanks a lot.

Sanjay Kapoor - President - Mobile Services

Hi this is Sanjay Kapoor once again. I will take your first question on spectrum to begin with. Obviously this is a spectrum-hungry business and always the more spectrum is good for both the service quality and efficiency. Yes, with this constraint that exists today, in the major metros there is a bit of stress that we do see which obviously gets covered by deployment of additional sites that we put across and additional capacities that we put across and I think we are able to bridge the gap for the time being, but obviously more spectrum is welcome.

As far as availability of spectrum is concerned, we believe that the policy is very clearly defined by the Government of India and once the spectrum is available from the defence forces it will be available to us. To give you any definitive of time line is a little difficult for us. We hope it will happen sooner than later this year.

Akhil Gupta – Group Lead Director - Telecom

On the tax rate, as you get some income or expenditure on account of movement of foreign exchange there is additional tax provision because these attract between the MAT and the deferred tax almost 33%, but it is a little difficult actually to always predict or give any guidance on the effective tax rate. It had been 14% to 15%. At this point in time, I would say that it would be anywhere between 16% to 18% or so, but this is very sensitive to so many factors that I think we will have to live with a bit of a range here.

On the Capex, we have spent almost \$900 odd million in the first quarter. At this point I would say that the earlier guidance of total expenditure of \$3.3-\$3.5 billion remains and we are pretty much in line with our earlier prediction.

Suresh – UBS – Hong Kong

Akhil, just to followup on the Capex, I was wondering more like for the next financial year and probably the

year after that, as you cover more of the population do you see Capex in an absolute number coming down?

Akhil Gupta – Group Lead Director - Telecom

I do not think at this point it would be right to really take a very firm view on Capex for next year, but I think on a broad based basis let me say this would be the kind of Capex we would look at in the next year as well. Of course excluding the tower side, which will go into the Infratel company. But excluding towers certainly you will have to just reduce the tower expenditure of a \$1 billion out of this, but this looks like the one at this point in time for the next year as well, but too early I guess.

Suresh – UBS – Hong Kong

Yeah. One more quick followup on Sanjay's response. I do understand that this is a spectrum hungry industry, but how bad is the problem currently? Are you losing out revenues because of that? Is it across 10 cities? 30 cities? 50 cities in India during peak periods? Any colour would be helpful.

Sanjay Kapoor - President - Mobile Services

Well, I would say definitely the top 6-7 cities. The quality of service could be far better if more spectrum was available. I do not think the company loses out any revenues because the sort of Capex that we are putting back into the business is taking care of all the volumes that need to flow through the network.

Suresh – UBS – Hong Kong

Thanks a lot gentlemen for that clarification.

Diana – Moderator

Thank you sir. Next question we have Mr. Anand Ramachandran from Citigroup, Hong Kong. Mr. Anand Ramachandran, please put your question now.

Anand Ramachandran – Citigroup – Hong Kong

Hi. Thanks. Good afternoon. Thank you so much for the call and congrats for the good numbers. Three questions from me.

Firstly, Bharti's leadership is kind of unsurpassed in subscriber adds, but it is also true that Vodafone in the 16 circles they exist have now added more subscribers than Bharti for the last, I guess, three months. I just wanted your on-the-ground feel, what are they doing different? What is working for them? Is there something they are doing differently? So that is question no.1.

Question 2, now that the Vodafone deal has closed, has there been any progress on converting the MOU on

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infrastructure sharing into something more definitive or is there a timeline on that which you can indicate?

Third question, again one on the numbers. The carrier revenues did decline a lot quarter-on-quarter, besides the strong rupee is there anything else driving that? Thanks.

Sanjay Kapoor – President – Mobile Services

Ramachandran, this is Sanjay Kapoor again. I will take your first question. I would say that you should look at the market share perspective on a little more long-term basis. If you look at our overall market share gain that we have demonstrated in the last 15 months or so, we have gained more than 2.5% points which is probably the highest ever that we have gained in very many years. Even when you compare us with Hutch, the gap between us and Hutch has really widened over the last 15 months. We had a gap of over 2 million customers with them and we are now 12 million customers ahead of them. Even when you compare us on like-to-like circles, we were just about 0.1 million, 100,000 gap between them and us in March of '06. Today that gap stands as wide as 3 million customers. So we have gained versus Hutch and we have not lost versus Hutch at all.

Anand Ramachandran – Citigroup – Hong Kong

So, you think they are not doing anything different at all?

Sanjay Kapoor – President – Mobile Services

Well, I think as far as activity in the market is concerned, I think it is very much at parity. There is no price advantage that anybody has amongst the big players. You know there is price parity; the schemes available in the market are very much workable and announced by others as well. As far as our distribution and network reach is concerned, we are leaving no stone unturned to move forward. Month to month, there could be a marginal difference as based on reporting of one operator versus another operator. You know we do not get into details of how they report and I am sure they do not get into the details of how we report, but I think we are fairly clear, we are reporting more and more of revenue-generating customers.

Akhil Gupta – Group Lead Director - Telecom

On the MOU, let me take up the question on the MOU and then I will ask David Nishball to answer on the carrier business. Well, we have an MOU with Vodafone, which we had signed. We are talking about that. I think the desire on both sides to share the network is very, very deep and I think we are moving very clearly towards that definitive thing, and I have no doubt that we would be sharing each other's networks to the benefit of both the parties, because it is very important and as we know move our infrastructure into the tower company, in any case that is the business model that the tower company has, so I would expect

that this would start happening. Of course, it is already happening, but it will accelerate very soon now.

David Nishball – President - Enterprise Services

This is David Nishball, head of the enterprise business which incorporates both the carrier and the corporate segments. Just to answer your question in terms of some of the movement of the quarter-on-quarter revenue with carrier business. There are a number of structural changes that have started to impact, some of which are really focused in this particular quarter. There was the reduction in access deficit charge, which came into effect exactly on April 1 and we passed the benefit of that change on to our customers both in the group and in the non-group level. Also, on the national long distance side, we have seen some decline in the short-term net rates. We built a lot of volume efficiency in the business over the last couple of years and those volume efficiencies are now being reflected into the market price and particularly as you see more and more of the domestic carriers get their own NLD and ILD licenses, we need to have effective net rates that they are attractive enough to attract them to give up the minutes rather than put those minutes all on their own networks. At the same time, what we are doing is expanding our domestic network interconnections with BSNL, so as some of that traffic moves off of our network on to their own networks we are replacing that with traffic of some of the harder-to-reach destinations.

Finally, there has been a reduction in the revenue growth for incoming international long distance traffic which is resulting from the appreciation of the rupee as those rates are mostly fixed in US dollars. On a year-on-year basis though, as Akhil pointed out earlier, we have had about 95% growth in minutes and that has fully offset the impact of all these factors over the year resulting in a year-on-year gross revenue increase to still over 30%

Anand Ramachandran – Citigroup – Hong Kong

Very comprehensive, thank you very much.

Diana - Moderator

Thank you sir. The next question is from Mr. Hoskin from Nomura, Hong Kong.

Andrew Hoskins – Nomura - Hong Kong

Hello, this is Andrew Hoskins calling from Nomura in Hong Kong. Thank you for today's call. Could I ask two questions please.

Firstly, although it is not directly relevant to the last quarter, could you give us any update on any thoughts you may have about expanding beyond India, where would that be, and would you be more likely to do that by yourselves or perhaps in cooperation with SingTel as one of your major investors?

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Secondly, you were speaking earlier about your view that the government is very committed to finding a solution to the spectrum issue and is likely to secure spectrum from the defence forces, what sort of cost might be involved to you in acquiring this spectrum? Thank you.

Manoj Kohli – President & CEO

This is Manoj Kohli. Starting with the first issue you raised, we already have operations in Seychelles which are running well. Last month, we launched our new operations in Channel Islands, which has picked up very well in a matter of few weeks and that is our pilot in to European markets, how our business model actually gets injected into European markets. Now, we are getting ready for our commercial launch in Sri Lanka which should happen by the end of the fiscal, so this is experience gained in shores outside India. Overall, our strategy is to build international operations in neighbouring countries. There are SAARC countries which are still under penetrated; however, there are some other Asia-Pac countries, Middle-East maybe Africa etc., which we can look at and we are looking at it. Primary purpose of all this is to implant our unique business model of India into these growing markets and really gain lot of market share as well as penetration. Jersey and Channel Islands of course as you know is under management contract, not direct ownership.

On the second issue you raised on the spectrum, as Akhil said, we are confident that the government's policy on 2G spectrum is quite robust, is well laid out and the government will allocate spectrum consistently based on that policy. On the additional cost, we believe we are already paying additional cost in terms of higher revenue share every quarter. As we increase customers, we increase revenues, we get more spectrum and we pay higher revenue share based on that spectrum, so I think the spectrum and cost of spectrum formula is already well laid out in the present policy of the government.

Andrew Hoskins – Nomura - Hong Kong

Thank you very much.

Diana - Moderator

Thank you Mr. Hoskins. Next, we have Mr. Kramer from Arete Research in UK. Mr. Kramer, over to you sir.

Richard Kramer – Arete Research - London

Thank you very much this is Richard Kramer from Arete Research London. First question for you the new contracts that were announced, the sort of mega deals with Nokia and Ericsson, can you tell us was there any material change in the underlying pricing and what are your key concerns about those contracts or are there any in terms of ability for the vendors to deliver such massive expansion on an ongoing basis?

Second question, I know there was some effort in the past at sort of extending handset bundles to include some sort of subsidy to allow first-time customers in rural areas to access handsets. Has there been any movement or change in terms of government stance on that?

Third, can you comment a little bit about the case for making use of spectrum perhaps for 3G at higher frequency bands in such a large geographically dispersed country? Do you need to wait for 3G to be provided at lower frequency bands or is there a case for rolling it out and dense serving areas at higher frequency bands? Thank you.

Manoj Kohli – President & CEO

Thanks. I believe the first question was about Nokia and Ericsson. These two large contracts were announced over the last few weeks. The key change was on the rate of dollar per erlang, which was decided at a lower level than past contracts. Also, of course we made quality SLAs more stringent because I believe that as the networks become large the quality SLAs and KPIs need to be more tougher, which is important for our brand leadership. We feel that both these partners have excellent infrastructure build-up in India. Ericsson has a very large manufacturing outfit in Jaipur, and Nokia has built a similar outfit in Chennai. So, their ability to supply electronics is building up quite rapidly in India and I believe in the next year or two they will supply maybe 80-90% from India itself. We really do not see any constraints with these two partners to really make these two contracts effective on the ground. On the handsets, I will request Sanjay to respond to you.

Sanjay Kapoor – President – Mobile Services

Hi Richard, this is Sanjay Kapoor. On the handset front obviously from our viewpoint as a policy we do not discount handsets at all and do not subsidise handsets. And from the government's viewpoint also it is not viable still in the country if you were to include handset sales then that gets liable as a part of the AGR for license fee. So it does not make any sense for any operator to do it.

On the 3G spectrum, Richard, we believe that based on the current policy we have a right to migrate from 2G to 3G spectrum as and when the government clarifies the policy. Well, the strategy as to whether we will restrict it in terms of coverage to major cities or rest of the country will purely depend on what are the commercial terms and conditions that come in play. I do not think at this stage we will be able to discuss that strategy with you.

Richard Kramer – Arete Research - London

Okay. Thank you.

Diana - Moderator

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Thank you Mr. Kramer. Next, we have Tien Doe from GIC Singapore, over to you sir.

Tien Doe – GIC – Singapore

Hi, good afternoon, thank you for the call. I just have one question on your three-line graph. That top line, the annualized revenues to accumulated Capex that came off a little bit in the last quarter, just wondering whether you think that is temporary? I know you have been expanding towers like crazy, your network operating expense has also risen as a percentage of revenues, is this all due to frontloading Capex and you would expect that line to trend up or does that line continue to come down from that one? Thank you.

Manoj Kohli – President & CEO

Thanks Tien Doe. Partly you answered that question yourself. I think we were very keen that the rollout which we had undertaken and which we had planned this year, we wanted a good start to that. I am glad that the teams have been able to rollout at a very fast rate. We have almost spent nearly about a \$1 billion in the first quarter knowing fully well that second quarter does get a little bit of a slack because of the monsoon. We are off to a very good start and obviously a couple of percentage points dip is just a temporary one, we believe what investments we are making will make it bounce back. I am not worried about on a quarter-to-quarter basis for this trend, but on an overall basis it is good that we are putting up those investments and again I think in the long term this will be actually very, very good.

Tien Doe – GIC – Singapore

Thank you.

Diana - Moderator

Thank you Sir. Next we have Mr. Henry Cobbe from Nevsky UK, over to you sir.

Henry Cobbe – Nevsky Capital - London

Hi there, thanks very much for the call. Henry from Nevsky Capital in London, just two questions.

First of all, just looking at your revenue for a minute and your minutes of use, last year for the full year you had fantastic elasticity and revenue per minute came down around 20% and MOU expanded 17%. I am just looking at this first quarter, revenue per minute is down 18%, MOU is on the up 8% year-on-year, so it is going to take a while for these new subscribers to get calling as it were and what kind of MOU growth and revenue erosion do you expect for this year?

The second question is just a bit of clarification on the infrastructure sharing deal with Vodafone. Do you have exclusivity with Vodafone and does that mean that not

only would you be the largest tower operator but you will also have the highest tenancy ratio?

Sanjay Kapoor – President – Mobile Services

Henry, could you repeat the second question please?

Henry Cobbe – Nevsky Capital - London

The second question is that your exclusivity agreement with Vodafone means that you will have a higher than average tenancy ratio out of all the tower operators in the country?

Akhil Gupta – Group Lead Director – Telecom

We will take the first one I think and I will take the second one on the tenancy issues.

Sanjay Kapoor – President – Mobile Services

Henry, first of all as we are proliferating into rural India obviously to maintain the number of minutes I think is good news. Secondly a lot of expansion in the recent past has happened because of the lifetime validity products that have come into the market and we have seen that with more and more of the customer base moving to the lifetime validity products it takes a bit of while for the customer to start upping the usage, and in the first month when the customer goes and spends 495 generally the usage is low, but it soon starts to pick up in the subsequent months. Obviously the same sort of elasticities that we probably have seen in the past may not occur with lifetime, but I see that the current usages are pretty much sustainable.

Akhil Gupta – Group Lead Director - Telecom

Henry, let me also point out as I mentioned in my address that we changed the method of recognition of the upfrontcy on the lifetime this quarter, which is a very, very good sign because that is on account of lower churn over the full last year and just to recount, we changed it to be amortized over 24 months instead of 18 months, which we were doing earlier and that resulted in a revenue being recognized lesser to the extent of about Rs. 700 million rupees, part of it was because of this, part of it also was that the ADC cuts which happened were passed on to the customers, so I think most of these are in line with the actual expenditure cuts which we have experienced.

Your question on Vodafone, yes we have an MOU with them for sharing of the network, now obviously if we can have Vodafone on our towers under Infratel as a tenant, which we would certainly have and we expect that to happen, we expect that the tenancy ratio on our towers will be pretty good and that I firmly believe will benefit not only the tower company, but very importantly all the operators who come on to those towers will be able to significantly reduce their

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expenditure, their focus and the time taken on these activities and therefore overall improve their operations.

Henry Cobbe – Nevsky Capital - London

Okay, thanks very much. Just quickly a followup on the traffic rates, if you look at the traffic rates in absolute terms, the growth rate declined quite significantly quarter-on-quarter and so what is the outlook on the floor over volume growth?

Sanjay Kapoor – President – Mobile Services

Let us watch out for that Henry, there are various interventions that we are trying to put in place to up the volumes and usage and there is a complete usage and retention drive that goes on and we will watch for the results.

Henry Cobbe – Nevsky Capital - London

Okay, thank you very much.

Diana - Moderator

Thank you sir. Next we have Mr. Rajiv Sharma from HSBC, Hong Kong.

Rajiv Sharma - HSBC – Hong Kong

Many thanks for the call. I am Rajiv Sharma from HSBC. I have a couple of questions.

First is how many towers will you end up with by March 2008?

Second is what is your broader approach to the entire tower business? Do you plan to have a consolidated tower business with various GSM operators like Vodafone and Idea or will you be looking at unlocking the value in the tower business in the near term? Also American Towers Company president is in India and to give a perception of an independent tower company would Bharti be looking at having a player like American Tower Company or somebody like this so that this perception is built with other tenants? What is the kind of IRR you are looking in terms of Capex recovery for this tower company?

Moving from the towers, also want to understand where is your DTH business status? When do you plan to launch? What is the amount of DTH Capex in this overall Capex of USD 3.3 billion?

Lastly on the elasticity on the roaming, what has been the elasticity after the cuts we witnessed last quarter?

Akhil Gupta – Group Lead Director - Telecom

Let us start with the DTH plan, Atul could you please take this question.

Atul Bindal – President – Broadband & Telephone Services

Hi Rajiv, this is Atul Bindal here. Our DTH plans are progressing well. Currently we are targeting to launch the DTH business before the end of the financial year, so that would be by March 2008, both on regulatory clearances as well as getting the market ready as well as equipment and infrastructure. We are progressing well and we hope that with the DTH entry we would be able to actually sustain and reinforce our ARPU enhancement strategy for upscale home customers and mass market customers even further. In terms of Capex the DTH Capex is included into the overall \$3.3 billion plan that we shared last time. About this year's projections, we would not want to share at this stage, but those plans are included into the overall Capex plan.

Akhil Gupta – Group Lead Director - Telecom

Sanjay, could you take on the roaming fees?

Sanjay Kapoor – President – Mobile Services

Rajiv on the roaming side as we declared last quarter that for a part period the revenues on account of roaming had come down by about 60 crores and after that we have seen that the elasticities have begun to show up. We have recovered, but I think we will wait for another quarter, at least this quarter to really be in a position to tell you how much of recovery has been possible.

Akhil Gupta – Group Lead Director - Telecom

Let me take up some of the questions Rajiv on the tower side. I think we have currently about 40,000 towers, which can get transferred to this company and as Sunil mentioned in his address, we hope to end this year, which is March 2008 with approximately 65,000 towers, which clearly would make it the largest tower company in the world.

As far as unlocking value is concerned, I look at it in a slightly different way because value can be unlocked by bringing efficiencies. The prime purpose of the tower company is to bring operating and capital efficiencies. We have always believed in outsourcing. We believe as a tower company under a completely separate management, with this as their prime business will bring in the efficiencies through better domain knowledge. We also believe that while this would bring profits to the tower company because its business model is that of sharing, it will bring significant savings to the operators who go as tenants on these tower companies. Also most importantly the operating teams will be freed of this burden and I think will be able to focus much more on the customer and the markets which is the prime job that they need to do and I think on all those three fronts it should be good for both.

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On the independence, absolutely, I think from our point of view it is imperative that a tower company must be not only independent but must be perceived to be independent. It must be seen as operator neutral and I think we will do everything possible to ensure this. You mentioned about American Tower Company, well I think there are many options and it will be wrong to start commenting on a public forum on any of those but there are many options, many ways of making this company independent and we are looking at all those.

On the IRR in this business, well that would amount to a guidance and obviously as you know we do not give guidance as a matter of principle.

Rajiv Sharma - HSBC – Hong Kong

Just a followup question on this. What will happen to the current infrastructure sharing arrangements which you have on the existing towers of your own? Also would you be looking at consolidating the tower assets of various other GSM players?

Akhil Gupta – Group Lead Director - Telecom

The current arrangement will ultimately move into whatever are the normal kind of arrangements under the tower company. As far as consolidating others is concerned, as I said there are many options which we will be thinking of and working on, but it is too early to start commenting, but these are some of the options and we will keep our options open on all of this.

Rajiv Sharma - HSBC – Hong Kong

Thank you very much.

Diana - Moderator

Thank you Mr. Sharma. We are taking the last question from Mr. Piyush of Alliance, Singapore.

Piyush – Alliance – Singapore

Thank you. Akhil, followup question on the tower business. Would I be right in interpreting your comments as suggesting that towers are not a core part of the business for Bharti Airtel? And looking ahead would you be able to comment on the implication of spinning off a business on the margins of the wireless business at Airtel?

The second question is for Sanjay. Sanjay, how many subs do you have in rural India and could you give us a sense of the usage pattern and the pricing that you have in rural India? On the wireless side just continuing, besides spectrum is there any other bottleneck that you see to your growth?

If I may slip another question on the international voice side, which are the markets that you are in and which

are markets you can possibly move into in the near future? Thank you.

Sanjay Kapoor – President – Mobile Services

Piyush this is Sanjay Kapoor. First and foremost on your question on rural India. Roughly today about 20% of our customers actually come from rural India as defined by what we reported to TRAI. As far as rural India is concerned despite these 20% customers you have seen that our performance on minutes has not fallen, which means it has grown. Therefore a customer in rural India is not necessarily a low-end user. We are seeing that both on handsets and on usage it is not that they go for the cheapest or low user, so we are seeing the same mix that we have seen in urban India in rural India as well. They have not been dilutive at least up till now.

Second thing, on rural is that we do believe that as we penetrate into further down villages, probably the price plan will change a bit to suit the local requirement, because probably handsets are not available, we will have to facilitate distribution of handsets in those parts of the country to make sure they are available to the customers, and maybe some local content and flavor could be added to some of the price plans that we have already begun to do in some parts of the country. Otherwise, I do not think we are diluting our tariff as we are going into rural India. I think we are packaging them very differently.

On the bottleneck on the business other than spectrum, obviously any company that grows at the pace that we are growing obviously the biggest challenge is always to make sure that systems and processes that exist in the company are able to cope up with the growth challenge that exists, and that will always remain something that we will keep combating with as we grow, but I think as a company we are investing and focusing heavily to build a very solid back end in terms of our CRM processes, in terms of our IT processes, in terms of our supports services and shared services to make sure that we are able to combat the growth challenge as we grow. Other than that I guess it is business as usual.

Akhil Gupta – Group Lead Director - Telecom

I will come to tower Piyush, let us take the question on the international voice first.

David Nishball – President - Enterprise Services

Dave Nishball here. I assume on international voice you are referring to our Airtel Call Home service, just before I get to that, just a quick comment in terms of our outgoing international voice business, which is quite robust with direct connections to over 67 countries in the world. So there is virtually no limitation in terms of our ability to deliver calls from India to the rest of world.

On inbound basis, we focused our Airtel Call Home service in the US market. We saw a very good response from our initial launch and we are now

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focusing on expanding the capacity in that service prior to launching it in additional countries. We still believe actually there is substantial growth opportunity within the US itself as well as some additional growth we can get by expanding the service to other countries. We are putting in place our plan for country expansion right now and I would not want to predict exactly what dates and where. I think we will be doing some country expansion within this fiscal year. The exact timing of that I think is something we will not tell you, but you can anticipate that we will target the markets with very high NRI populations and relatively liberalized telecom regulation.

Akhil Gupta – Group Lead Director - Telecom

Piyush, as far as the tower part is concerned on a question about core business, we have always believed that outsourcing is not to be decided on basis of core versus non-core because everything in telecom is core. It is to be decided on the basis of who can do the job better and as I mentioned earlier I think a separate tower company with complete focus on that part on the Capex and opex on one hand and sharing of the towers on the other is absolutely the right recipe for outsourcing of this particular piece. So it is a right contender and we believe this is the right thing to do. As you know, this company will be a 100% subsidiary of Airtel and therefore in any event there can be no question of depletion of margins, but I do certainly expect that with better efficiencies, both opex as well as Capex sufficiency and getting profitability on account of sharing, there should be a possibility of bettering that, but I think it would be safe to assume that there would not be net worth impact in any case.

Piyush – Alliance – Singapore

Are you then seeking shareholders to come into this business?

Akhil Gupta – Group Lead Director - Telecom

Well, that is one of the options I mentioned about the independence bit. I think there are several options, one option could be looking at some private equity investors and so there are various options as I mentioned. We are still evaluating and we will take a decision in due course.

Piyush – Alliance – Singapore

Thank you Akhil.

Diana - Moderator

Thank you sir. At this moment I would like to hand over the proceedings back to Meenakshi. Meenakshi over to you.

Meenakshi - Moderator

Thank you very much Diana. We will now begin the question and answer interactive session for the participants in India who are connected to audio conference service from Airtel. Participants who wish to ask questions may please press “*1” on their touchtone enabled telephone keypads. On pressing “*1” participants will get a chance to present their questions on a first-in-line basis. To ask a question please press “*1” now.

The first question comes from Mr. Srinivas Rao of Deutsche Bank, Mumbai. Mr. Rao you may ask your questions now.

Srinivas Rao - Deutsche Bank - Mumbai

Thank you very much sir. This is Srinivas here. I have one question on the employee cost over the last two quarters. In the fourth quarter it actually went down on an absolute basis, anyway in this quarter we notice that it has grown about 2% points whereas your employee addition is about close to 12% to 13%, can you throw some light on the spend there?

Manoj Kohli – President & CEO

Hi this is Manoj Kohli. There are a couple of factors, which we could talk about. One is the annual increment to our employees happens in this quarter, so that definitely is one factor behind increase of cost. Other factor is that the new employees who are coming in are actually customer-facing employees. They are really not at senior level or with high cost, so if you see the addition it is more in our subsidiary company called Airtel Services Limited where we bring in customer facing employees who give better quality of service at the front end of the company and the cost of those employees is really not very high. I really believe that on the one hand employees may be increasing, but our level of productivity has also been enhanced in a substantial fashion now.

Srinivas Rao - Deutsche Bank - Mumbai

Thank you.

Meenakshi – Moderator

Thank you sir. The next question comes from Mr. Shubham Majumder of Macquarie Securities, Mumbai. Mr. Majumder you may ask your question now.

Shubham Majumder - Macquarie Securities - Mumbai

Hello everyone. I have a couple of questions.

One is specifically a question to Mr. David Nishball. Can you just update us on what is the status of the integration of i2i cable business into Bharti Airtel and

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what is the likely date for that? And more importantly can you just give us some colour as to how this business will work as part of Bharti Airtel? What is the sort of business plan you have in mind? And most importantly what is the financial upside on integration to Bharti?

David Nishball – President - Enterprise Services

To answer specifically your question about the transaction. Again for those that may not recall, we are spending about 110 million dollars to acquire 100% of the i2i cable that connects Singapore to Chennai; 8.4 Terabits capacity. That transaction has been worked on with SingTel over the last few months, the closure of that is imminent. Certainly by the end of August the closure of that is imminent. The immediate impact of that on our business is going to be a reduction in cost. We are currently taking some lease line capacity costs, which will be placed by our own capacity cost so we will have immediate reduction upon closure on the cost side. On the revenue side, it will give us some opportunities in the longer term in two ways. We will have a significant capacity build up of the market in a variety of different forms, both short-term lease as well longer term deals including higher use. It will also allow us to eventually migrate our business from a half channel business to a full channel business. That will not happen immediately as most of our customers sign one year contracts, so over time as those contracts expire we expect more and more customers to opt for full channel options, which will give us a higher EBIDTA margin than we see on the half channel business where we are paying out the half channel cost.

Shubham Majumder - Macquarie Securities - Mumbai

Just a follow on that how much of that capacity will Bharti need out of the total capacity that i2i brings online? Secondly, what is the number of route kilometres and how much is the cable link running at a capacity utilization as of right now?

David Nishball – President - Enterprise Services

8.4 Terabits is a huge number. The lit capacity is actually less than that so that is the ultimate capacity of the cable if we light all of the fibre pairs.

Akhil Gupta – Group Lead Director - Telecom

Typically on a submarine cable the capacity will always be so much that this question would have no relevance. Again route kilometres in this case do not have relevance because this is connecting point to point, Chennai to Singapore. So there will be plenty of capacity for Airtel's needs for a long, long time.

David Nishball – President - Enterprise Services – Bharti Airtel

We will light up those fibers as and when we need them.

Shubham Majumder - Macquarie Securities - Mumbai

My question the one bit that you probably missed was you will have plenty of capacity to offer to third parties as well in addition to fulfilling Bharti's own needs.

David Nishball – President - Enterprise Services – Bharti Airtel

That is correct.

Shubham Majumder - Macquarie Securities - Mumbai

With regard to the tower Capex, Akhil I think you mentioned earlier in the call that \$1 billion is the Capex on tower in fiscal 2008, so if we assume 30,000 towers to be built, which is the number, I think, you are talking about during the course of fiscal 2008, then the cost of each tower built, the Capex cost comes out to about 1.35 million rupees. Do you not think that number looks to be very low or am I missing something?

Akhil Gupta – Group Lead Director - Telecom

What I had mentioned was that in the \$3.3 to \$3.5 billion guidance we had included the tower numbers. When we talked of 30,000 towers there that also included those towers where we would go and take sharing of the towers, which belong to others. The net number of the new towers planned for just Airtel was somewhat lower and therefore the cost per tower was taken at a higher figure.

Shubham Majumder - Macquarie Securities - Mumbai

Okay, so essentially if I read it right you are probably talking about 30,000 BTSs to be set up in 2008 fiscal.

Akhil Gupta – Group Lead Director - Telecom

That is right. It was 30,000 BTSs, that did not mean that we would have planned to put up our own 30,000 new towers, that could mean taking it from others as well. Now with the tower company, of course, we are looking at what their final plans would emerge, because they would be catering to not only Airtel, but the needs of the other operators as well.

Shubham Majumder - Macquarie Securities - Mumbai

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Sure. With regard to, I think, I saw a statement on the media, saying the tower company will be set up and will go live possibly by October after the regulatory clearances are in. So what is the tower built out number for the tower company over the next 12 months? Would you be able to say something on that?

Akhil Gupta – Group Lead Director - Telecom

I think the tower de-merger process is already on. We have got the stock exchange clearance and that whole process is going on. I expect that sometime in October this should be all over with the court approval. That is one part. As far as the rollout of towers and this company are concerned, we are in the process of now finalizing a new business plan for the tower company and I think it is a little premature to talk about the actual numbers. All I can say at this stage is it would certainly not be less than what we had planned earlier for Airtel alone.

Shubham Majumder - Macquarie Securities - Mumbai

Okay. Last question to Sanjay Kapoor. On minutes of use how should we look at this metric going forward? Because I think that will be a key metric to watch for a while going forward as you ramp up your share of subscribers in rural from 20% to more like 50% over the next three years, a little longer term sort of question.

Sanjay Kapoor – President – Mobile Services

Well all I can say is that we have not had a reason in the recent past where the minutes have come down by going into rural India, and I think it will be good. You will see that as the lifetime plan settles down and as the U&R machine works into these new customers, there is no reason why the minutes of usage will not go up.

Shubham Majumder - Macquarie Securities - Mumbai

Okay. Thank you so much.

Meenakshi – Moderator

Thank you sir. The next question comes from Mr. Sanjay Chawla of J.P. Morgan Mumbai. Mr. Chawla you may ask your question now.

Sanjay Chawla – J.P. Morgan - Mumbai

Hi good afternoon everybody and thanks for the call. I just have three or four questions.

First is, your other income seems to have gone up significantly, quarter-over-quarter, can you just provide some colour on that?

Secondly, your mobile EBIDTA margins have gone up by 150 basis points quarter-on-quarter, just break it down into the contribution coming in from ADC and port charge reduction from reduction in NLD carrier charge and also the residual portion coming in from your economies of scale? That would be great.

Thirdly, what percentage of your prepaid net adds in the first quarter came on the lifetime validity product, specifically the Rs. 495 recharge? If you could just clarify like by end of March 2008 how many would be your own towers? Thank you.

Akhil Gupta – Group Lead Director - Telecom

I think the other income has gone up because some of the provisions, which had been outstanding for more than three years were written back, but I do not remember that to be a very, very significant figure. Must have been, I think, an increase of 40 to 50 crores. So nothing very spectacular. We would not like to give the exact break ups of the increase in margin attributable to ADC etc, etc. I think we would like to keep that because that is something, which is strategy, which is something we are driving very hard and we would not like to divulge the details. Sanjay could you take up on the lifetime please?

Sanjay Kapoor – President – Mobile Services

At the end of March, about 30% of our prepaid customers really were on the lifetime plan and since the time the rates came down to Rs. 495, obviously there has been a rise in the number of customers and that 30% has become 34%. So it has accelerated, so more than one-third of our prepaid customers today really sit on the prepaid lifetime plan.

Sanjay Chawla – J.P. Morgan - Mumbai

March 2008 how many towers will be there?

Akhil Gupta – Group Lead Director - Telecom

In March 2008, we expect around 65,000 towers in the tower company.

Sanjay Chawla – J.P. Morgan - Mumbai

Akhil, all of them would be own towers, Bharti's own towers?

Akhil Gupta – Group Lead Director - Telecom

That is right.

Sanjay Chawla – J.P. Morgan - Mumbai

Thank you very much.

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Meenakshi – Moderator

Thank you sir. The next question comes from Vinay Jaising of Morgan Stanley, Mumbai. Mr. Singh, you may ask your question now.

Vinay Jaising – Morgan Stanley - Mumbai

Thank you. Sir I have three questions for you.

Firstly on the tax rate, Akhil did address it earlier as 16% to 18% subject to a lot of parameters. If I were to make an assumption that the Rupee-Dollar-Yen all are at parity for the rest of the year or the rest of the few years, would that number go back to 14% as had been indicated earlier to us by the management?

The second question is if you look at your sales, your gross sales is up 7% to 8%, your net sales is up, net of the internal consumption is up 9% to 10%. Clearly, there has been a reduction in the internal consumption from 7.5 billion to 6.8 billion. We are talking about increase in on-net traffic, I find some disconnect out here probably the ADC charge is the disconnect in reduction, but if you could throw some light out there.

The last question is sales and marketing expenditure. That has really risen a lot, over 9 billion for the quarter. Do we see that as an increasing trend? That is about 160 to 170 bps increase on a sequential basis. I stop here.

Akhil Gupta – Group Lead Director - Telecom

Sanjay, why do you not take the sales and marketing because that is mainly on the mobile side?

Sanjay Kapoor – President – Mobile Services

Vinay as far as sales and marketing expenses are concerned, I think you will see some blips that do happen during the year. It is not something that is consistent and will be on the rise throughout the year. We do believe that we keep a very close watch on what we spend on, both the sales expenses and the marketing expenses and I think what you are seeing is just about a blip. I do not think you should read it to be extrapolated over rest of the year.

Vinay Jaising – Morgan Stanley - Mumbai

It is fair to assume it will go back to the 14.5% odd level?

Sanjay Kapoor – President – Mobile Services

Yes. We are working towards that.

Vinay Jaising – Morgan Stanley - Mumbai

So put the other way around, do we see a 100 basis points improvement in margins for the company as a whole for the rest of the year?

Akhil Gupta – Group Lead Director - Telecom

That is always a dangerous question to answer Vinay.

Now, I think the fact is these things tend to average out over a period. Therefore it will be wrong to pick up one quarter and look at those figures, but yes I think there is always attempt to rationalize the expenditure in every which way. On your other point on deferred tax, yes, I think very significant movement in the overall effective tax rate does come from these blips in the foreign exchange movement, because on these there is no permanent difference, these are all timing differences and therefore you have to straight-away provide for the MAT and the deferred tax, which works out to roughly about 33%. I think while I cannot absolutely say this with complete certainty, I do believe that if it is assumed that these are absolutely stable, we should be looking more like 15% to 16% and not this escalated figure.

On the point, which you mentioned, I will go through that in greater detail but surely what you are pointing out could be as a result of passing on of the ADC and therefore the value could be a little lower, but the overall traffic is higher, but we will come back to you with a detailed analysis on that.

Vinay Jaising – Morgan Stanley - Mumbai

Thank you so much sir.

Akhil Gupta – Group Lead Director - Telecom

Thanks.

Meenakshi – Moderator

Thank you, sir. The next question comes from Mr. Bijal Shah of Brics Securities, Mumbai. Mr. Shah, you may ask your question now.

Bijal Shah – Brics Securities – Mumbai

Hi, congratulations on a good sort of numbers. I have three questions.

First is, we are talking about setting up around 25,000 towers this year, can you throw some light on how this number is likely to move beyond FY08? For your targeted geographical penetration, how many towers will you be requiring over longer term?

Second question is on the tower side, when you receive some rental income from other operators, does it get classified into your revenues or is it a reduction in cost? Does it have any implication on revenue share? Thirdly, I would just like to clarify, you have said that Rs. 700 million is the impact on the revenue side, is that only on account of change in accounting policy or does it also include impact of reduction in ADC charges being passed on to the customers?

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Akhil Gupta – Group Lead Director - Telecom

Let me take the third one first. 700 million is purely on account of change not in the policy. The policy remains exactly the same. This is the upfront fee which we take on the lifetime product which naturally needs to be amortized over a period of time. I am given to understand that some operators do take it as an upfront revenue, which we do not, because we believe it is a lifetime product therefore it is sensible to estimate the life of the customers on the network, which is only to be measured as per the churn.

There is no change in policy. The only change is that since the churn has come down naturally the life expectancy of the customer on the network has increased, so Rs. 700 million is purely on account of amortizing over 24 months instead of 18 months. It does not involve the ADC pass on.

On the tower side, let me answer based on what now would be under the tower company. I think, this year we do plan to do another 25,000 towers, so we should end up with approximately 65,000 towers. The rental income obviously for this company will go as the rental income because this is now its main business, but what we intend to do next year, I think, now this is getting into a competitive space, we have others who have plans to set up tower companies, some of those plans have already been unveiled. I think we would like to keep this a bit private at this point in time and not divulge any details. In any case, I think the detailed business plans for this for longer periods are being drawn up, but it would not be perhaps appropriate for me to share all the details on the tower business at this point.

Bijal Shah – Brics Securities – Mumbai

Okay, just to followup on that. Once the income gets classified as rental, does it have any revenue share incidence?

Akhil Gupta – Group Lead Director - Telecom

No. There is no revenue share on that.

Bijal Shah – Brics Securities – Mumbai

Okay. Thank you very much.

Meenakshi- Moderator

Thank you sir. The next question comes from Mr. G.V. Giri of India Infoline, Mumbai. Mr. Giri you may ask your question now.

G. V. Giri – India Infoline – Mumbai

Congratulations on your numbers. I just have one question. Since you have said in your report that on a year-on-year basis, your revenues have gone up by 53% and your number of subs have gone up by 82%, could we have some kind of an indication of apples to

apples ARPU erosion or increase? What would the revenue have been had your number of subs been constant?

Akhil Gupta – Group Lead Director - Telecom

Would it serve any purpose in getting into that hypothetical situation? I know one thing for sure. My job would have gone if the subs had remained static.

G. V. Giri – India Infoline – Mumbai

The focus is more on ARPU erosion.

Akhil Gupta – Group Lead Director - Telecom

ARPU we have given. If you see page 10 of 39 of the quarterly report, ARPUs have come down in this period from Rs. 441 to Rs. 390. It is very obvious that as we target at the lower end of the rainbow in terms of the real common man with lower income levels we want to make this facility available to them with very little commitment per month, I think it is designed to bring down the ARPUs and therefore you will always see that the percentage growth of customer numbers, I can safely say will always be higher than the percentage growth of revenue in this business.

G. V. Giri – India Infoline – Mumbai

It is understandable that you are adding more subscribers in low ARPU areas, but in the same urban areas?

Akhil Gupta – Group Lead Director - Telecom

We would not in any case be able to give you any specific information area wise.

G. V. Giri – India Infoline – Mumbai

Sorry?

Akhil Gupta – Group Lead Director - Telecom

We would not like to give any area wise information on some of these matters.

G. V. Giri – India Infoline – Mumbai

Understood. Thank you.

Meenakshi – Moderator

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Thank you sir. The next question comes from Mr Rahul Singh from Citigroup, Mumbai. Mr Singh you may ask your question now.

Rahul Singh – Citigroup - Mumbai

Good afternoon everyone. I had questions on coverage and Capex. Firstly on the coverage. Where do you think you will be from the 62%, what ballpark number do you want to be by say March '09 or March '10, whether it is more like 80% or more like 90% plus?

On the dollar per erlang deflation which you mentioned earlier, just wanted to get a sense on what kind of deflation are we talking about in terms of either it is 5-10% from the previous contract or it is more like 20% plus? Also whether these contracts are completely dollar denominated and you get the benefit of Rupee appreciation on this or not?

Akhil Gupta – Group Lead Director - Telecom

Let me take the second part first and then ask Sanjay to talk to us little more about the coverage. I think in terms of the dollar per erlang and the Capex contracts we have very tight nondisclosure agreements. In any event even if they were not there, I think this is hugely competitive information and I would absolutely not like to give any details on such a sensitive matter. I will have to say sorry about that. Sanjay if you can give some light on coverage.

Sanjay Kapoor – President – Mobile Services

Rahul like you rightly said we cover about 62% of the population today and we believe with the amount of investment we are making and the coverage that we plan for March '08 we should go to about 74-75% of the population, we will see beyond that. Obviously to cover the entire 100% is never going to be possible.

Rahul Singh – Citigroup - Mumbai

Just a quick followup on that. On the dollar per erlang contracts which you have signed, is it just for the fact that presumably you would be going to low population density areas, so does the dollar per erlang adjust for that on a very qualitative level, is it possible for you to?

Akhil Gupta – Group Lead Director - Telecom

Absolutely. Very clearly the dollar per line contract we have is not circle by circle. It is our national contract. The mandate given to the partners, Ericsson and Nokia is very, very clear that what we are looking for is very deep penetration, very quick rollouts, and to answer your question absolutely specifically this much I can, is that this is not something, which is area by area this is absolutely national. The rural area rollout, which we intend to have, they have been discussed in detail with our partners and they absolutely are with it and these contracts apply to every part of the country.

Rahul Singh – Citigroup - Mumbai

Okay thanks a lot.

Akhil Gupta – Group Lead Director - Telecom

Thank you.

Meenakshi - Moderator

Thank you sir. The next question comes from Mr. Anirudh Gangahar of Goldman Sachs, Mumbai. Mr. Gangahar you may ask your question now.

Anirudh Gangahar - Goldman Sachs - Mumbai

Good afternoon. Three to four questions out of which two have already been answered. One is what is the rollout of IPTV network and secondly if you could tell us out of the total towers that you have, how many towers are shared, if you can throw some light on that? Thank you.

Akhil Gupta – Group Lead Director - Telecom

Atul,, will you take up the IPTV please.

Atul Bindal - President - Broadband & Telephone Services

This is Atul here again. We are progressing well on our IPTV rollout plan. The trials are successfully moving forward. It is our plan to launch IPTV in select parts of the capital, Delhi before the end of this calendar year. So sometime between October and December is when you should see us taking ground and over the next year we would be taking our plans forward to include the next 3 or 4 larger towns. Our strategy with IPTV is really going to be focused on our existing customers initially and use it to provide them with triple play services, which would also help in the ARPU sustenance strategy, which is really one of the core pillars for the broadband and telephony business and then at a later stage enter the mass market with the DTH part.

Sanjay Kapoor – President – Mobile Services

Anirudh on the sharing of towers as we speak to you just a little under 30% of our towers are shared. This activity from our side has been going on for the last 4 years and we are one of the pioneers in the industry to have started sharing towers with everybody else.

Akhil Gupta – Group Lead Director - Telecom

Obviously Anirudh with now this being separated into a tower company, the tower company will see a very

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different level of sharing because that is going to be their core business now.

Anirudh Gangahar - Goldman Sachs - Mumbai

Absolutely sir. Thank you very much.

Meenakshi - Moderator

Thank you sir. Ladies and Gentlemen due to constraints of time we are not able to entertain any further questions. This brings us to the end of the question and answer session. I would now hand over the call proceedings back to Mr. Sunil Bharti Mittal for the final remarks.

Akhil Gupta - Group Lead Director – Telecom

Sunil had to leave for a meeting, Manoj could you do the honors please.

Manoj Kohli – President & CEO

Thank you Akhil. I just wanted to thank you for all these questions, all the queries. I hope we have been able to fully satisfy your doubts and we look forward to another big quarter coming up and maybe next time we will allocate some more time for more questions from you all. We look forward to meeting you all once again next quarter. Bye.

Meenakshi - Moderator

Ladies and Gentlemen, this concludes the earnings call. You may now disconnect your lines. Thank you for connecting to Audio Conference Service from Airtel and have a pleasant evening.

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