

Earnings Call Transcript

Event: Bharti Tele-Ventures Limited Earnings Conference Call for the Third Quarter and Nine Months ended December 31, 2005.

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BTVL- Third Quarter and Nine Months Ended December 31, 2005

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PRESENTATION

Swati – Moderator

Good afternoon ladies and gentlemen. I am Swati, the moderator, for this conference. Welcome to the Bharti Tele-Ventures' third quarter and nine months ended December 31, 2005 earnings call hosted by ABN AMRO Bank. Mr. Suresh Mahadevan, Regional Telecom Analyst-ABN AMRO Bank, is your call leader today. 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 the 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 handover to Mr. Suresh Mahadevan of ABN AMRO Bank.

Thank you and over to you Mr. Mahadevan.

Suresh Mahadevan– ABN AMRO Bank – Regional Telecom Analyst

Thank you, Swati. We at ABN AMRO Bank are very pleased to host this call and welcome you all to this analyst briefing on third quarter FY06 results for Bharti. We would like to take this opportunity to extend our congratulations to the Bharti management team on a good set of numbers. As usual, we have the full representation from Bharti's senior management on the call today. On behalf of all the participants, I would like to thank the senior management for taking the time to be with us on the call today and would now handover the proceedings to Ms. Sonal Kapasi, Head, Investor Relations of Bharti Tele-Ventures, to initiate the proceedings.

Over to you, Sonal.

Sonal Kapasi - Bharti Tele-Ventures Limited - Head, Investor Relations

Thank you, Suresh and a very good afternoon to all of you who have dialed into the call today. This is Sonal Kapasi, Head, Investor Relations of Bharti Tele-Ventures. Hope all of you are in receipt of the quarterly results for the period ended December 31, 2005. The results along with key performance indicators in excel format are also available on our website www.bhartiteleventures.com. Today, we are hosting this earnings call from the city of Mumbai and we have with us the members of senior management of the company. Mr. Sunil Bharti Mittal, Chairman and Group Managing Director and Mr. Akhil Gupta, Joint Managing Director, will present you with an overview on the company and its results. Also, present with us is Mr. Rajan Bharti Mittal, Joint Managing Director, Mr. Manoj Kohli, President, Mobile Operations, and Mr. Badri Agarwal, President, Infotel Operations to take on Q&A. Before I handover the floor to Mr. Sunil Bharti Mittal, I would like to caution you that the discussions today may include certain forward looking statements which must be read in conjunction with the risks that we face.

Thank you and over to you sir.

Sunil Bharti Mittal - Bharti Tele-Ventures Limited - Chairman and Group Managing Director

Thank you, Sonal. Let me add my greetings to all you who have joined the call. This has been a spectacular quarter for the entire industry and particularly for Bharti. The year gone by, the year 2005, would go down as a year of new benchmarks for India and Indian Telecom Industry. The year ended with 125 million telecom customers of which nearly 75 million represent customers coming in from the mobility segment. Indian Telecom is now truly replicating the landscape of the world telecom and closing in on the huge stupendous growth that we have witnessed in China in the last few years. Wireless subscriber addition, that is a new record in this quarter by adding more than 10.8 million customers with just December alone plucking over 4.4 million customers. The industry recently experienced a new wave wherein it introduced the much-awaited validity-free world for its customers; a world where there is no processing fee and more importantly no restriction on validity. If you recollect, in the Indian Prepaid Segment, there were these three big basic tenets; one was validity which was generally

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kept at 30 days, the second was the processing charge to offset the monthly rental for Postpaid, and the third was the minimum amount of money that a customer was expected to spend. All these three have been taken away in one push by Airtel redefining the entire prepaid market. To my mind, this has been one factor, which has fired the market and taken it to the level of Chinese growth month on month. I will ask Akhil to talk a little bit more about the impact of this particular move, the details relating to this product, and in particular, the accounting treatment for this very successful product. On the regulatory front, reduction in the entry fee and the annual license fee for NLD and ILD augurs well. This is the first signal that the government is willing to lower the punitive duties that are currently levied on operating telecom services in the country. The much-awaited increase in the FDI from 49% to 74% has started showing good results. As you are aware, Vodafone has made a large investment, in fact, the largest ever in the Indian Telecom history and recently Maxis has also entered into the Indian Telecom market through the acquisition of Aircel, an operator in the Southern India. Orascom has also made an indirect entry into India by way of acquisition of a part stake in HTIL that gives them a leg into the Indian market. Briefly on the company results, the company experienced highest ever net additions in a single quarter of 2.4 million telecom customers comprising of 2.26 million mobile customers and 140,000 broadband and telephone services customers. Of this, the company added close to a million subscribers in the month of December alone, December was an excellent month for the company. Key highlights of the quarter were that revenues have been placed at 30 billion, the EBITDA crossed the 11 billion mark, and more importantly the cash profit breached the 10 billion mark at 10.3 billion and the net profit at 5.5 billion rupees. The other significant updates pertaining to the company are, as I mentioned, Vodafone acquired a 10% economic stake in Bharti for a total consideration of approximately 1.5 billion dollars. The industry saw various product plans getting introduced in the market. Being a leader in the wireless market, we have taken the first step to revolutionize the market and take it to the next level of growth by, as I mentioned, introducing the lifetime validity prepaid product, a product with no restrictions giving the total freedom to the customers using prepaid segment. A very important commercial launch of a submarine cable co-owned by Bharti was launched, SEA-ME-WE-4, which connects India to the Western World, linking India to Marseille in France was launched, giving on one hand redundancy to the data customers of Bharti but more importantly giving Bharti the ability to compete with others to sell bandwidth to domestic and international customers on the western side. We received provisional clearances for extending our fiber into Pakistan and also Nepal. Work is progressing on this, and we should be able to benefit, picking up data and voice traffic out of Pakistan and Nepal on existing network. We have also initiated trials of IPTV and Wi-Max in limited areas, the results of which are keenly awaited within the company. The company was adjudged as the "Best managed company in India-large-cap" -Asiamoney December 2005 edition. We were awarded "India's most customer responsive company award" by Avaya Global Connect and a number of other awards have come in the form of individual awards as well as company recognition. I personally believe that the time is not far when the company will join the ranks of operators with more than 25 million customers. The company is well positioned to realize its vision of making Airtel the most admired brand in India that is loved by more customers, targeted by top talent, and benchmarked by more businesses. I will now ask Akhil to take over this call to give

a detailed presentation on the financial and other key factors.

Thank you.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Thank you, Sunil. Welcome to all the participants who have dialed-in today. I hope you have all received the quarterly report and have had a chance to go through it. Before I start the briefing on the company's performance, as Sunil mentioned, this has been a great quarter. It has been the best quarter ever for the Indian Telecom market with a record high of 10.8 million new customers added. This represents a growth of an incredible 41% over the previous quarter, i.e., the sequential quarter and more than two times the subscriber net additions during the corresponding quarter ended December 31, 2004. I would also like to reiterate that for us this quarter was a period of accelerated growth and investment. During this quarter, the company has seen various firsts. To name a few, we had the highest total customer net additions of 2.4 million in a single quarter, our quarterly revenues for the first time crossed Rs. 30 billion, the incremental revenue over the previous quarter crossed Rs. 3 billion, and the cash profit for the first time crossed Rs. 10 billion mark in a single quarter. I would, therefore, like to take this opportunity to congratulate our operating teams for another quarter of highly rewarding performance in very challenging circumstances because this performance comes despite continued pricing pressures in each and every segment where we operate. As Sunil mentioned earlier, the wireless market experienced a new wave, wherein, for the first time a new category of product was launched for consumers which provided them on one hand with a validity-free world and coupons with no processing fee on the other. We revolutionized the Indian Prepaid market by launching this product and soon the other operators followed. Just to recap the key feature of this product, for just Rs. 999 as a one-time payment a user can continue to receive calls for a lifetime without having to recharge or worry about the validity period of the card or the coupon. The Lifetime Prepaid Card also offers the use of full talk-time on every future recharge of any denomination whatsoever. I would like to clarify here the accounting treatment of this lifetime validity prepaid product, which is a new category of product in itself, and on which we have received some queries. As a matter of prudent accounting and in accordance with the GAAP principles, we will be recognizing the processing fee of Rs. 882 that is 999 minus the service tax pertaining to this product over an expected life of a customer which currently is less than 18 months but we have chosen to do that over an 18-month period. Simultaneously, on the other products with processing fee a Top up product was introduced more or less as a routine across the market during this quarter with no additional processing fee, i.e., effectively with full talk-time availability on such Top ups. While this product is somewhat different from the 999 product, in order to be consistent, we have also deferred the processing fee of all other products currently in the market over their lifetimes; but for this, the revenue for the quarter would have been higher by Rs. 320 million, which would have resulted in EBITDA being higher by approximately Rs. 280 million. Let me now briefly talk about the operational performance highlights of the business. Our total customer base as on December 31, 2005 crossed 17.5

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million mark which comprised of 16.3 million mobile and 1.2 million fixed line customers. The net additions during the quarter, as mentioned earlier, of 2.4 million were the highest ever-net-addition experienced in a given period by the company. As per the official statistics available, our country is divided into 5,161 census towns and over 5,86,000 non-census towns and villages. Our mobile coverage at the end of the quarter stands at approximately 3,300 census towns, and we cover over 58,000 non-census towns and villages thereby covering approximately 38% of the total population. During the quarter, we added over 2,500 new sites taking the total site count to over 17,300 as on December 31, 2005. It is very heartening to note that the total minutes carried on our mobile networks have increased by 22%, from 15.3 billion minutes in Q2FY06 to 18.6 billion minutes in Q3FY06 and this increase is almost double from the same period last year. We rolled out broadband and telephone services in four additional towns during the quarter, thereby increasing our presence to 79 towns at the end of December 2005. With our acceleration of deployment and rollouts in new towns and cities, we were able to invest approximately Rs. 16 billion that is roughly about US\$ 350 million as capex during this quarter and for the nine months ended December 31, 2005, the total capex spent was Rs.39.1 billion that is approximately US\$ 871 million. We have till date made total gross investments of over Rs.205 billion which is roughly about US\$ 4.6 billion. Let me touch upon the financial performance highlights of the business in this quarter, the consolidated revenue for the quarter was Rs.30.3 billion which represents a year-on-year increase of 42%, the consolidated EBITDA for the quarter was Rs.11.2 billion which is a 41% increase, and the EBITDA margin for the quarter was 37%. The net finance cost was Rs.924 million with normal finance cost of Rs.576 million and Rs.348 million on account of exchange fluctuations and derivative accounting due to depreciation of rupee during this quarter. The cash profit from operations exceeded Rs.10 billion, this stood at Rs.10.3 billion which was an improvement of 29% and the earning before taxation was Rs.6.4 billion for the quarter, an increase of 34%. During this quarter, we had depreciation and amortization expense of Rs.4 billion. The increase in depreciation and amortization was mainly on account of the massive expansion mode in which the company is, which is very clearly evident by the increase in town coverage, sites installed, and the new rollouts mentioned in the earlier portion of my conversation. During the quarter, the company incurred an income tax expense of Rs.858 million. Out of this, the current tax expense was Rs. 534 million while the deferred tax expense recognized was Rs.324 million. The effective tax rate for the quarter worked out to 13.4% out of which approximately 8.4% was the current tax rate inclusive of the minimum alternate tax and the fringe benefit tax rate. The net profit was Rs.5.45 billion, growth of 25% year on year. This led to an earning per share of Rs2.90 for the quarter; just to remind, this is for the quarter and not annualized. The mobile segment contributed to 72% of the total revenue in the quarter and 71% to EBITDA. For the nine months ended December 2005, the total capex on mobile segment represented 61% of the total capex of the company. Just to point out a few key ratios, the return on equity for the quarter was 29.3% as compared to 26.2% a year ago while the return on capital employed improved from 16.1% to 21.8% in the same period. I would also like to draw your attention to the three-line graph given by us on page 29 of the quarterly report which, as you know, is a dashboard on which we closely monitor our performance. Over the past five quarters, you will see that Bharti has seen its quarterly revenues grow from Rs.21.3 billion to Rs.30.3 billion. However, I am very pleased to say

that despite continued expansion wherein in this period we have made incremental capital investment of over Rs.46 billion, the capital productivity and operating efficiency has been more or less maintained. This is extremely gratifying given the large amount of investments that we have made to capture the growth in the Indian telecom market space both in terms of capex and opex. It clearly shows that the investments that we are making are going to do us a lot of good in future. On the balance sheet front, the company has net debt of Rs.36.3 billion which is roughly about US\$ 800 million with net debt to EBITDA less than 1, it was at 0.91 as compared to 1.46 times a year ago and the interest coverage was 19.4 times up from 13.03 times in December 2004. To conclude, I would like to summarize that this has indeed been a very-very satisfying quarter for us. We are very excited about the growth momentum in the Indian Telecom Industry. The fact is that India is now clearly replicating China. We added 4.4 million in the last month, China has been adding between 4 to 5, so we are now getting there, and the fact that we are in a very good position to capture this growth is indeed something which makes us very satisfied.

I would like to now handover the floor back to Swati for questions and answers.

Swati – Moderator

Thank you very much, sir. I now handover the proceedings to Manisa at Airtel International Center 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, Manisa.

Manisa – Moderator

Thank you, Swati. At this time, international participants may press zero one (01) if they would like to ask a question. On pressing zero one (01), participants will get a chance to present their questions on a first-in-line basis. The international participants who wish to ask questions may please press zero one (01).

Please press zero one (01) now.

The first question comes from Mr. Sundeep Bihani of Lehman Brothers. You may ask your question now, sir.

Sundeep Bihani– Lehman Brothers – Hong Kong

Congratulations on a very good quarter. I just have a couple of questions. First is, Akhil, if you could share any color on the capex guidance especially for the next year and how you are going to allocate it between fixed line and mobile. The reason I am asking this is that in quarter 3, again, fixed line capex has been substantially higher even though mobile continues to deliver much stronger revenue growth. Again, can you please reiterate your FY06 and FY07 new town target? My second question is on enterprise margins which have come down pretty sharply, 47% in the March quarter to 33% in December quarter. Can you give any color as to how we should think about these margins going forward? The third thing is any color on the 999 net add growth in terms of

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what proportion do you expect will start to come from 999 subscribers and can you also disclose your 999 customers till December quarter. Thank you.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Let me take up one on the capex guidance. I think we are very encouraged by the fact that our teams have shaped up to take up the challenges and add more than 2,500 sites in this quarter. I think the growth is tremendous. We have seen wherever we are going, the reception is tremendous. We have not been able to work out the exact plans on the capex at this point, but by way of what we are looking at, I would feel that the capex for the next year should definitely be above US\$ 1.5 billion, now how much it is I cannot say at this point of time. Hopefully, by next quarter we would have firmed up our plans, but by what it looks like it should certainly be more than US\$ 1.5 billion. It is quite true that in the third quarter, the fixed line has taken a major share of the capex but that is because in the second quarter, because of monsoons, they had to defer their plan. Therefore, the third quarter is always bigger in terms of fixed line, but all I can say at this stage is that next year on an overall basis we have been maintaining more or less 2/3rd for mobile and 1/3rd for the other businesses; but the way the mobile is growing it is likely that next year there may be a slightly higher percentage of expenditure on the mobile side, but it is too early to say. I think we will be able to give you a better sense of this by next quarter. On the enterprise segment I would ask Badri Agarwal to take up that question and on the 999 we have Manoj here who would take that up. Badri, would you please take this.

Badri Agarwal - Bharti Tele-Ventures Limited - President Infotel

Good afternoon. The margins for Q3 of enterprise segment have got impacted because of 3-4 reasons. One is that TRAI reduced the prices for domestic and international lease circuits and that had a major impacts on the pricing and therefore on the margins. The second impact is on account of the VPN license fee, which was not there last year. This license fee has come effective this year, so that is the second reason, but most importantly we are now in the process of spreading our operations throughout the country for the enterprise business. This business is moving very fast so we are creating the necessary infrastructure all over the country to capture the opportunities in this space and fourthly there are large number of big contracts that we are getting in the enterprise space for which the necessary cost in terms of capex and opex has to be incurred upfront and the revenue streams will come over a number of years; so these are the four reasons because of which the margins in this quarter have got impacted. Thank you.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Hi, this is Manoj. The lifetime product was part of our affordability strategy. If you recall, we had launched a 200 RC product in June, which was again part of that affordability plank and I think it has made a good start in the market. We cannot share details with you because it is early days and I think we are monitoring the market growth very closely;

however, let me share with you that this is an integrated strategy of network, affordability, distribution, and also handset bundle which we are doing with our partners Nokia. So, as an overall plan it has picked up very well, market has shown a positive response, and I believe it will give us robust growth in this quarter too.

Sundeep Bihani– Lehman Brothers – Hong Kong

Thank you Akhil, just a follow up question on capex. Your Q 3 capex has actually come down from Q2. Is it any reason for concern? Secondly, can you please tell us your town coverage targets for FY06 and FY07?

Thanks.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

I think in terms of the town coverage we are pretty much now in 79 towns. There may be some more added, but I think in 06-07, there will be more of consolidation of operations in the towns where we are entering.

As far as the capex for this quarter is concerned, as per what I have is, we have more capex in this quarter.

Sundeep Bihani– Lehman Brothers – Hong Kong

No, I am referring to the mobile capex and mobile towns.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Well, it is more or less the same, but marginal differences could occur on account of whether the sites are being put up more in the existing areas or the new areas, so even with more sites there could be lesser expenditure if there are more sites in the existing areas, but it is a marginal difference and I do not think there is too much of a difference.

Sundeep Bihani– Lehman Brothers – Hong Kong

Okay. Thank you very much.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Sorry, did you ask for mobile number of towns or fixed lines?

Sundeep Bihani– Lehman Brothers – Hong Kong

Mobile number of towns.

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Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Mobile number of towns are at 3,300 census towns as on December 31, 2005 and over 58,000 non-census towns and villages.

Sundeep Bihani– Lehman Brothers – Hong Kong

And what are your targets for 2006-2007?

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

By March 2006, we should be able to increase the town coverage to close to 3,700 to 3,800 towns and by March 2007, we aspire to cover all the census towns of India.

Sundeep Bihani– Lehman Brothers – Hong Kong

Is this a reduction from the earlier numbers? Earlier, from what I have understood, for March 06 your target was to cover more than 4,000 or like 4,500 towns?

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

Let me clarify here. We are broadly classifying the towns in two parts. One are census towns which are 5,161 in number, in India. Others are about 5,80,000 villages and townships. Some of these townships, let me clarify, are more than 10,000-15,000 population townships too. So if you look at both the buckets, our coverage is ahead of the 3300 number, which Akhil shared with you just now. Now we will, always as a practice, give you the numbers in two parts, census and non-census.

Sundeep Bihani– Lehman Brothers – Hong Kong

Okay, Thank you.

Manisa - Moderator

Thank you. The next question comes from Mr. Henry Cobb.

Mr. Henry Cobb – Thames River Capital – United Kingdom

Hi there! Thanks very much for the call, and just a follow-up question on the margins. The DLD and data margins are much weaker in the quarter; also the telephony and the DLD margins are weaker in the quarter at about 25% and 34%. What is your expectation going forward?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Yes, on the long distance there is a slight dip in the margin for the same kind of reasons, which Badri had mentioned earlier, the IPLC rates coming down because on the long distance side also we have sales of some of these leased circuits, but nothing very significant there. On the broadband and telephone services, of course over the last quarter, there has been an actual improvement.

Henry Cobb – Thames River Capital – United Kingdom

Okay, and your expectations going forward, do you expect them to remain at similar levels?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Well you know, we do not give any specific guidance but yes, considering that we have rolled out into several new towns on the fixed line side, I think they will now start getting settled and we do hope that they will keep improving.

Henry Cobb – Thames River Capital – United Kingdom

Okay, Thank you very much.

Manisa - Moderator

Thank you sir. The next questions comes from Mr. Gautam.

Gautam Trivedi – Goldman Sachs – Hong Kong

Hello, this is Gautam Trivedi from Goldman Sachs, Hong Kong. Congratulations on great set of results.

I was looking at your ARPU numbers. ARPUs are still quarter-on-quarter pretty much unchanged at Rs. 470 which seems pretty impressive given the intensifying competition. In fact, it appears sitting here that literally every week there seems to be a new plan being launched by some mobile operator, which is extremely aggressive. Given the aggressive plans being launched, who knows what this quarter and next quarter hold in terms of new plans. ARPUs cannot possibly sustain at these levels. I would think ARPUs should come off. I would appreciate your thoughts on that firstly. Secondly, what do you think on the impact of Mobile One which BSNL is planning to launch pretty soon.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

On the ARPU I would agree with you. I think the way the market is being constructed and the aim is to try and get more and more subscribers, I would not be surprised that the ARPUs do come down, but I have always said that ARPUs in our business are not that important now and while it is always very nice to see that the ARPU fall is very marginal and that represents the elasticity of demand in our business.

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We would not be too worried if the ARPUs did come down a little more. I have mentioned about the three-line graph where the revenues are rising; If the revenues rise and our capital productivity and operating efficiencies are intact, I would not worry about the ARPUs. As far as the impact of One India rate is concerned, it is very early because we do not have the rules before us, we do not know what is happening on the ADC, so it will be wrong to say anything about the One India Impact, but we do believe that whatever is being done on that has to be on the back of the ADC being okay and therefore we do not expect that to be adversely impacting us in any which manner.

Gautam Trivedi– Goldman Sachs – Hong Kong

Are you experiencing a huge churn from your existing prepaid to the lifetime prepaid?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

No, nothing significant.

Gautam Trivedi– Goldman Sachs – Hong Kong

And one last question. As far as I appreciate your point on ARPUs, but what would your breakeven ARPU be?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Breakeven ARPU? Well, as I said, in our business as long as every additional piece of revenue gives me sustained capital productivity we are fine, so it could be anything depending on what the capital expenditure on that is. I would want you to go through page 29 where we have given this three-line chart and that clearly would reflect that the capital productivity is pretty much intact.

Gautam Trivedi– Goldman Sachs – Hong Kong

Thank you.

Manisa – Moderator

Thank you. The next question comes from Mr. Anand Ramachandaran, Citigroup, Hong Kong.

Anand Ramachandaran – Citigroup – Hong Kong

Following up on the Enterprise Service margin shrinkage, I was wondering if you could kind of indicate how much of it was due to the extra levies and license fees that you indicate have come into the business and roughly how much of it is probably due to, you know, the cost of doing business, i.e., expanding, setting up capex in infrastructure as Badri pointed out, that would be useful. That is question 1.

Question 2, I guess just looking at the detail one thing did surprise me, SMS and non data revenue as a proportion of

ARPU declined, even though marginally, quarter on quarter and even as, you know, ARPUs appeared to have remained more or less unchanged, so I was just wondering if there is anything particular that drove that. Thanks.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Well, as far as Airtel Enterprise Service is concerned, Anand, we definitely would not like to share those details because that is very competitive information in terms of how much are we expanding and what we are spending. So, I would not be able to give you any breakup on that.

Manoj Kohli - Bharti Tele-Ventures Limited - President Mobility

On SMS, I just want to add here that, you know, in absolute volume terms our revenues have gone up; however, overall revenues on voice have gone up much more sharply because, as you know, the killer application in India is still voice and all the new towns we are getting into and all the new customers we are getting especially the prepaid customers first need to listen to the dial tone, use the voice, and then may be in a few months or few weeks get on to Value added services (VAS) and data services. So we are quite optimistic; our Value added services revenues, data revenues, and new products coming up, will continue to grow. As a percentage, it depends on how much voice grows because voice will also continue to grow at quite a rapid clip. Is that fine?

Anand Ramachandaran – Citigroup – Hong Kong

Could you follow up also on the capex issue, Akhil, just one quick question, you know, is it a stupid question to be asking if we are approaching peak capex next year or is there still just so much growth coming that you probably want to watch and then take it as it goes?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Definitely not a stupid question Anand, but the fact is the way the growth is happening and the way the acceleration is taking place, it is absolutely impossible at any point of time, I think, if you had asked us as to whether we would experience this kind of growth about a year back perhaps the answer would have been that we really could not have imagined, so I think what is lying ahead is something where it would not be very wise to say that the capex which we are planning next year is the peak or is not the peak. I think that we will have to see how the whole market unfolds.

Anand Ramachandaran – Citigroup – Hong Kong

I appreciate it and you know obviously it is fair to assume that the cash flows are more than enough to support that capex, so there are no issues on the cash flow side, no issues of any fresh financing at all?

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Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

No, there is no issue on the fresh financing but it may or may not be that the cash generated from the business is enough to support whatever you need to put in for this expansion because we believe that in this massive growth phase free cash flow is not what is going to drive the company, we are investing in future and the main aim is to capture the maximum share of this growth, for that whatever it takes as investment and again our guiding principle is that any investment that goes in, as long as your capital productivity and operating efficiencies are intact and your revenues are shooting up, more investment is better so we would not worry if we have to borrow a little bit more. I went through it when I mentioned about the leveraging. We are an under leveraged company and we have scope to borrow more so we would not worry too much about that. Definitely, no issues even if we have to borrow a little more.

Anand Ramachandaran – Citigroup – Hong Kong

Understood. Thank you so much and congratulations on a great quarter.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Thank you.

Manisa– Moderator

Thank you. Next question from Mr. Tien Doe.

Tien Doe – Alliance Capital – Singapore

Thank you very much for the call. Sorry about the noise in the background. Just a couple of questions:

Question No 1, with Vodafone now being a shareholder, have you done any cooperation yet with Vodafone and the second question is just on that having seen some of the plans of Orascom taking a stake in Hutchison and Maxis also taking a stake in an Indian operator, are any of those plans interesting or concerning to you or is it just about the same as before?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Well, Vodafone as you know is now a significant part of Bharti as they picked up stake and we are cooperating with Vodafone at many levels, taking best practices, Vodafone live type of application. We are closely tracking their 3D development and trying to get some skill sets injected into Bharti to get prepared for the 3D launches in the future, and of course, now Vodafone being our partner, we will be roaming much more closely with their networks around the world. So, that is really on Vodafone as we do with SingTel on the Eastern side, we will be doing this with the Vodafone

on the Western side. Now as far as the Orascom development and the Maxis development in the market place is concerned, there have been moves by foreign companies to gain some toehold into the Indian market. We welcome these moves, I think, the 74% move in FDI and also the overall attractiveness of the Indian market is bringing all these operators into play, we just watch it with interest and make a note of it but it does not really have any impact on the market*.

Tien Doe – Alliance Capital – Singapore

Okay. Thank you very much.

Manisa-operator

Thank you. At this moment there are no further questions from participants outside India. I would like to handover the proceedings back to Swati.

Swati-Operator

Thank you very much, Manisa. We will now begin the question and answer interactive session for the Indian participants connected to Audio Conference Service from Airtel. Participants who wish to ask questions may please press star one (*1) on their touchtone-enabled telephone keypad. On pressing star one (*1) participants will get a chance to present their questions on a first-in-line basis. To ask a question, please press star one (*1) now.

The first question comes from Mr. Sanjay Chawla from JP Morgan, Mumbai. Mr. Chawla, you may ask you question now.

Sanjay Chawla – JP Morgan – Mumbai

Hi, congratulations on a good set of numbers and thanks for the call. I have three questions. One is your corporate and other expenses have gone up significantly quarter-on-quarter, if you could throw some light on that? Secondly, what would be, if you could provide any guidance, your effective tax rate next year, would you say that it would be north of 13.4%, the one that you reported in the third quarter? And my third question is, in the enterprise segment, what would be your outlook on the long-term EBITDA margin.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Corporate and other expenses have gone up this quarter because we had a major brand campaign in this period. You might have seen the campaign called "Nigahen" which was a very successful campaign. So, we were doing a massive brand building exercise and many other activities around that and I think that it was treated as a corporate expenditure and that is why it went up but that was a temporary increase at that point. On the effective tax rate, it is very difficult to say because this effective tax rate, as I mentioned, comprises of two parts, one is about 8.4% of the current tax that will remain where it is because that is mainly comprising of MAT and the fringe benefit tax, but, as far as the deferred tax is

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concerned it is also a function of, you know, the timing difference which depends on the capex for as the capex goes up it could go up somewhat but at this point of time I would not be in a position to guide you well whether 13.4 would be marginally moving or significantly. Hopefully, as we firm up our capex plans for next year, by next quarter we may be in a better position to tell you something about this one. On the enterprise business, all I can say is I definitely cannot give you a guidance as to what the margins would be but what we see of this business is that this has great potential and this is the way forward to offer integrated services in the country, particularly to the large corporates, and I am quite hopeful and we believe at Bharti that going forward on a medium-to-long term basis, the enterprise margins will improve definitely.

Sanjay Chawla – JP Morgan - Mumbai

Akhil, coming on to the issue of tax rates, now that your new circles where you started operations in August 2004 have started turning up profit and when you start claiming exemptions under section 80 IA, do you see if there is any case of effective tax rate coming down next year from what we have seen so far this year?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

No, I do not think that we will be claiming 80 IA so early in the new circles, I think that is still far away, so I do not see at this point of time the effective rate coming down very drastically over the next year but as I mentioned, I think once we can firm up the capex plans for next year I think we would be in a better position to tell this but just to answer your specific question, I do not expect this effective tax rate to be coming down next year.

Sanjay Chawla – JP Morgan - Mumbai

Okay great, thank you very much.

Swati-Operator

Thank you very much sir. Participants who wish to ask questions may please press star one (*1). The next question comes from Mr. B Srinivas from Enam Securities, Mumbai.

Mr. Srinivas, you may ask your question now.

B Srinivas Rao – Enam Securities– Mumbai

Hello sir, this is Srinivas here. Congratulations for the good set of results. Just wanted to check with you that there seems to be a restatement of your Q3FY05 numbers, primarily in the deferred taxation side, am I correct in my analysis on that?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

No, I am told that there is no restatement. I will ask Sonal to get in touch with you and clarify whatever you have in mind but there is no restatement.

B Srinivas Rao – Enam Securities– Mumbai

in the previous quarter. Secondly sir, is there a move to induct any Vodafone directors on the Bharti board?

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Yes, absolutely. This was announced at the time of Vodafone's joining in Bharti that they will have two seats on the board and prominently in the last few days the newspapers have carried that Vodafone has appointed two directors on the board.

B Srinivas Rao – Enam Securities– Mumbai

Okay, fair enough, sir. Thank you very much, sir.

Akhil Gupta – Bharti Tele-Ventures Limited - Joint Managing Director and Chief Financial Officer

Thank you.

Swati-Operator

Thank you very much, Sir. At this moment, there are no questions from the participants. I would now handover the floor back to Mr. Sunil Bharti Mittal for the final remarks.

Sunil Bharti Mittal - Bharti Tele-Ventures Limited - Chairman and Group Managing Director

Thank you very much. Let me thank all the participants for having taken their time to be with us on this very important earnings call. This has been a great quarter, a great year, and a great cumulative nine months. We believe that the Indian Telecom Market is poised for fantastic growth in the coming months and years ahead. Bharti is very well positioned as an integrated player with its assets in all the segments of telephony to partake a sizable share of the growth that India is going to witness in the coming years. With these words, let me thank all of you once again and hopefully, we will be able to speak to you one quarter from now. Thank you.

Swati-Operator

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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