

Earnings Call Transcript

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Earnings Conference Call

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Bharti Airtel Limited First Quarter Ended June 30, 2008

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PRESENTATION**Priyanka - Moderator**

Good afternoon ladies and gentlemen, I am Priyanka, the moderator for this conference. Welcome to the Bharti Airtel Limited First Quarter Ended June 30, 2008 Earnings Conference 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 all the participants on this call. Present with us on the call today is the senior leadership team of Bharti Airtel Limited. We propose to commence this call with the opening remarks from Mr. Akhil Gupta and Mr. Manoj Kohli after which the floor will be opened for the question and answer session. Before I hand over the call to Mr. Gupta, I must remind you that the overview and the 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. Akhil Gupta. Thank you and over to you, Mr. Gupta.

Akhil Gupta – Group Lead Director - Telecom

Thank you. Good afternoon and a very warm welcome to all the participants who have dialed in. This has been another great quarter, but before we go on to the quarter I think it is important to just look back at how the telecom industry in India has shaped up. Telecom industry very clearly has been a shining example of what reform processes can do to an industry. We are now at about 325 million customers overall in India. If you recollect in 1994 when these licenses of the cellular services were granted, there were just a few million customers, so it has been a very, very rapid growth. It is a matter of pride that in less than 15 years of opening of the telecom sector to the private sector, the Indian wireless market is now the second largest market in the world after China. It is also a matter of great pride for all of us in India that for the first time, India in last year added more wireless customers than China did. This was in fiscal 2008 and thereby becoming the largest market based on net additions in the world. I am confident that the current momentum, which we are seeing now on a sustained basis, is there to remain and we expect that this could further accelerate for many events, I think it is certainly sustainable and therefore the milestone of 500 million by 2010 is something which becomes more and more real. Looking at the factors for future growth for this sector, I think the wireless teledensity of 24% and overall teledensity of 26% is still one of the lowest in the world. Very clearly if you look around the region it is again one of the lowest even in this region and this only clearly indicates a very huge potential for growth of this industry going forward. The

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business model, which India has been able to come up with, which is a very unique business model, with that the affordability issue is extremely well addressed by lowest tariff per minute anywhere in the world and very low-cost handsets.

On the regulatory front, I think, India is marching ahead. India is now ready for the 3G services, which other parts of the world are enjoying and we are hopeful that the 3G policy will be announced and rolled out soon and we look forward to the announcement of this policy, which we have no doubt will maintain a level playing field for all operators. Coming to the key company developments for the quarter - The company closed this quarter with a total customer base of approximately 72 million. The net additions for the quarter have been highest ever in our history almost 7.5 million new customers added of which 7.4 million were wireless and about 100,000 in Telemedia. It is heartening to see that in such a competitive environment we have not only been able to maintain the lead, but we are gradually expanding the same, both on the customers and revenue market share. Our wireless customer market share expanded to 24.3% at the end of June 30, up from 23.7% at the end of March and 23.1% at the end of June 2007.

The key highlights for the quarter ended June 30, 2008 were revenues of 84.8 billion, EBITDA of over 35 billion and for the first time the net profit crossing the Rs.20 billion mark. Some of the other significant developments during the quarter were we reiterated our commitments to make mobile telephony more affordable as well as our commitment to pass on the reduction in the ADC charges by significantly reducing the STD rates in this quarter. This applied to all Airtel customers all across. Our company has also been able to sign up consortia partners in EIG, Europe India Gateway cable system, which will link India to the United Kingdom. It will be spanning 15,000 kms and would connect 13 countries across three continents. I am sure this will enable us to make our business model more robust, improve on our performance and catch the potential, which the enterprise segment in particular has in times to come. In line with the disclosure that we made last quarter the transfer of SS from Bharti Airtel to Bharti Infratel became effective on January 31. I would like to once again highlight that both Infratel and Indus Towers have now full management teams in place and are now operational. We are giving separately a segment on this passive infrastructure business. It is my pleasure to announce that Airtel was recently honoured with the Prestigious Wireless Service Provider of the year award at 2008 Frost and Sullivan Asia Pacific Awards in May 2008. We were also voted as India's Most Innovative Company in a survey conducted by the Wall Street Journal. Airtel was also voted the second most trusted service brand in the Annual Economic Times Brand Equity Most Trusted Brands Contest. In the end I would like to say that these recognitions go a long way to highlight the key strengths of our company, which I would put as continuous innovation to enrich the lives of our customers, ongoing improvements in efficiencies and productivity both on the Opex front and Capex front by bringing stringent controls, by bringing new business models, which serve our customers well and all this while maintaining absolutely the high standards of ethics and corporate governance. Overall a very

satisfactory quarter and my congratulations to the entire team for a great job been done. Let me now hand over to Manoj to take you through the overall performance for the quarter in detail. Thank you.

Manoj Kohli - Chief Executive Officer - Bharti Airtel Ltd.

Thank you, Akhil. Let me extend my warm welcome to all participants who have taken time to participate in this Bharti Earnings Call today. I hope all of you have received the quarterly report and have had a chance to go through the contents of it. Before I share the quarter performance I would like to first reiterate Akhil's point that this quarter witnessed a robust growth for the overall market. Bharti Airtel of course lead this growth with overall net additions of 7.5 million customers, which as Akhil said is the highest net addition in a single quarter and June in particular we added more than 2.5 million customers, which is the highest ever after China mobile. This makes us the fourth largest operator, in-country operator in terms of customer numbers after two Chinese giants and AT&T. Now moving to the operational highlights - Bharti Airtel recorded a strong performance in the quarter extending its leadership position despite intensive competitive market conditions. The company's total customer base increased to 71.7 million customers with mobile customer base at 69.3 million and Telemedia customer base at 2.3 million customers. In the mobile services the company's population coverage has grown to 74%. We added presence in 25 new towns and 21,600 new non-census towns and rural villages. In line with our expansion plan our mobile distribution network now comprises of more than 9,20,000 retail outlets. We also became the first private mobile service to launch mobile services in Lakshadweep Islands conquering the last district in India. Our Sri Lanka project is on track, in terms of rollout and we will launch operations during this year. During the quarter we launched our m-commerce products in association with Visa, leading banks like State Bank, ICICI, HDFC, etc., and of course our partner mCheck. This is another step in enabling our customers and providing convenience to recharge and transfer money. The initial response to these new features has been very encouraging. We also announced our partnership with Apple to bring the highly anticipated iPhone, 3G iPhone to India for our present customers as well as new customers.

I am also delighted with the performance of other business segments in Telemedia for example we have added a little over 1,10,000 customers in the past quarter and also simultaneously increased our DSL penetration to close to 36%. We also did a soft launch of our services in Surat, in Gujarat during the quarter in line with our strategy to expand into select high value customer towns. We also did soft launch or test of our DTH service for our employees and we expect to launch the DTH service in this year. In the Enterprise Carriers business, the minutes increase has been 74% year-on-year and we have added 4,750 kms of optic fiber in this quarter. In the corporate segment, we have added over 119 new key accounts. We are also pleased to announce that we have now become the largest VSAT operator in the country after executing a very large VSAT program in Gujarat called eGRAM

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project where we executed 13,700 VSAT stations in the last quarter. Now let me talk about the financial performance of this quarter. As mentioned by Akhil, I am pleased to report that the quarter has been extremely satisfactory. The consolidated revenue for the quarter ended June 30, 2008 was 84.8 billion, representing an increase of 44% over the corresponding prior period quarter and quarter-on-quarter increase has been 8.5%. The consolidated EBITDA for the quarter ending June 30, 2008 was 35.2 billion representing an increase of 44% over the corresponding prior period quarter and quarter-on-quarter increase of 8.3%. The EBITDA margin for the quarter was at 41.5% up from 41.4% a year back. The cash profits from the quarter ending this June 30, 2008 was 33.4 billion representing an increase of 27.4% over the corresponding period last quarter and quarter-on-quarter increase of 10%. The net profit for the quarter was 20.3 billion representing an increase of 34% over the corresponding prior period quarter and quarter-on-quarter increase of 9.3%. Our total Capex for the quarter was \$947 million. On the balance sheet front the company had net debt of 41.5 billion, which is approximately \$968 million as on June 30, 2008. At the end of the quarter the net debt to EBITDA was 0.33 times as compared to 0.37 times a year back. Debt to equity ratio was at 0.17 as compared to 0.19 a year back and interest coverage was approximately 43.9 times vis-à-vis 32.9 times a year back. To recap a few key ratios the return on equity is at 37.9% while return on capital employed is 33.8%. In the end I would like to summarize that this has been a very satisfying quarter for all of us. We are enhancing our market leadership in each business segment consistently quarter after quarter. We are excited about growth momentum in Indian Telecom Industry and the fact that we are not only in every way well positioned to capture this growth, but are also leading this growth to service and innovation. I now hand over the floor back to moderator for Q&A. Thank you.

Priyanka - Moderator

Thank you very much sir. We will now begin the question and answer interactive session for all the participants who are connected to the audio conference service from Airtel. Participants who wish to ask questions may please press "*" "1" on their touchtone enabled telephone keypad. On pressing "*" "1" participants will get a chance to present their question on a first-in line basis. To ask your question please press "*" "1" now. Participants who wish to ask question may please press "*" "1" now. The first question comes from Mr. Harit Shah from Angel Broking, Mumbai. Mr. Shah, you may ask your question now.

Harit Shah - Angel Broking - Mumbai

Good afternoon and a very good set of numbers, so congratulations for that to the management. Sir, I wanted to get an understanding in the Enterprise Services Carriers business, there was a significant sequential jump in your revenues whereas in terms of your revenues per minute they actually rose by about 14% sequentially. I just wanted to understand what is

the main driver behind that. Did the rupee depreciation have anything to do with this?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

This is Sarvjit, how are you doing?

Harit Shah - Angel Broking - Mumbai

Good sir, how are you doing sir?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Good. I think this is one aspect of the composition ; so what I'll do is just go through the whole composite with you. That would explain also carrier business because you also have an impact as far as the other segments are concerned. First as far as the EBITDA margins of the mobile business is concerned we feel that the EBITDA margin is no longer comparable either between different peers or between different operators. Unlike earlier times an operator has flexibility to choose between Capex and Opex, which is interchangeable. In our case, in Bharti's case, you saw from last quarter there is a separation of the Tower's business into Infratel and Indus. We have chosen to feed the charges for our operating expenses in the mobile business and this was capital expenditure for us earlier. We do think this is good for our business. Now coming back to your point so that is one aspect, I think last year it was an issue as well. We have also looked at two or three other things, in line with what I just mentioned that the tower company rentals for the mobile business was only for a part period last quarter and it is for the full period this quarter and we also took a decision on increasing carrier charges to reflect the actual cost to be in line with the market. So that is hope for Bharti and group companies, which is Telemedia and Mobile services as well as other group that is Enterprise business, that is the second area . What you find in these two or three changes is that by segment it is difficult to compare but overall you'll find that it is consistent and because we are an integrated operator and I think you must look at the business on an overall group basis where you will find it very consistent at about 41.5%. So it is a different business model and I think going forward you should actually look at it in that light, Ok.

Harit Shah - Angel Broking - Mumbai

Okay great. Thanks a lot sir.

Priyanka - Moderator

Thank you, Mr. Shah. Next question comes from Mr. Sandeep Bihani from Prudential Asset, Singapore. Mr. Bihani, you may ask your question now.

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Sandeep Bihani - Prudential ICICI - Singapore

Thanks for the call. Just one question on your overall margins as you asked me to look at it, they have now been sort of almost peaked four quarters back and since then has been declining. So how should I look at it over the next few years in terms of operating leverage? Or are you at the peak in terms of overall margins or there could be room for growth?

Akhil Gupta – Group Lead Director - Telecom

Sandeep are you talking of the mobile margin or the overall margins?

Sandeep Bihani - Prudential ICICI - Singapore

I am talking of the overall EBITDA margins?

Akhil Gupta – Group Lead Director - Telecom

Overall I think it has been fairly stable at about 41%, I am pretty pleased with the margins. I do not know about you, but definitely for a business of this size a 41% kind of margin is very satisfactory.

Sandeep Bihani - Prudential ICICI - Singapore

My question was your overall margins were at 42.8% in September and since then has been slightly declining, so have you peaked on the overall EBITDA margins or is there room for growth?

Akhil Gupta – Group Lead Director - Telecom

This is a constant struggle, we will always try to keep improving the market conditions and then competition, which will keep pulling something down, I would not be able to give any guidance on this, but I think very clearly anything north of 40% is quite satisfactory.

Sandeep Bihani - Prudential ICICI - Singapore

Thank you, Akhil.

Priyanka - Moderator

Thank you, Mr. Bihani. Next question comes from Mr. Tien Doe from GIC, Singapore. Mr. Doe, you may ask your question now.

Tien Doe - GIC - Singapore

Hi. Good afternoon, thank you, very much for the call. Sorry to ask this but, your feeling on where the margins on the individual businesses went if you were to exclude the effect of the Tower spin oftenly, the increase in the tariff charges for the enterprise

business, your feeling on whether those individually remain stable or whether there was pressure or an increase in any of your businesses. What is your feeling for that year-on-year or quarter-on-quarter? Second question just on the Tower business your feeling over the next six-months on whether that ratios of 1.22 sharing is going to see an increase or not? Thank you.

Akhil Gupta – Group Lead Director - Telecom

Let me first ask Sanjay to talk about the margins on the mobile business and adjust it for that and then I can answer on the tower side .

Sanjay Kapoor - President - Mobile Services

Well Tien Doe this is Sanjay Kapoor. Very clearly on the mobile side like Sarvjit explained earlier, you need to look at the overall margins of the company because they are moving from one pocket to another pocket and therefore you need to see the whole stuff in totality, but considering the fact that we have taken certain steps in the last quarter because of which you might have seen some decline, one was we took a deep tariff cut on STD, ISD that would have impacted the margins a bit, secondly you would have very clearly seen that the impact of tower company rentals while it was for a part period last quarter, it was for the full quarter this year and finally the carriage charges that were there were actually brought mark-to-market considering what BSNL was doing and they were more cost based. So I think these are the ones that probably altered the EBITDAs for the last quarter. We believe that you should look at overall company's margins rather than individual business going forward.

Akhil Gupta – Group Lead Director - Telecom

As far as the tower side is concerned, very clearly the whole purpose of forming these tower companies and separating them into different companies and from Infratel to form Indus, which as you all know is a joint venture between us, Vodafone and Idea is to share this infrastructure amongst all operators on a non-discriminatory basis. The very fundamental business model of these tower companies is to increase sharing and therefore very clearly in times to come I am very confident we will see significant rise in the tenancy ratio, which is currently at 1.22, but I have no doubt these would rise quite rapidly.

Tien Doe - GIC - Singapore

Thank you.

Priyanka - Moderator

Thank you, Mr. Doe. Next question comes from Mr. Anand Ramachandran from Citi Group, Hong Kong. Mr. Ramachandran, you may ask your question now.

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Anand Ramachandran - Citi Group - Hong Kong

Thank you for the call and congratulations for the good numbers again. Couple of questions sirs; one Capex, could you give us a rough idea of what the total Capex budget is for the year and if possible to provide an indication of active versus or I guess passive infrastructure, how much that will be out of that total numbers available. Secondly, I was just referring to some press reports, which quote Mr. Akhil Gupta was talking about MTN still being an option. I just want to confirm this is it a closed chapter or is it still very much in option and you are willing to come back to the table and under what conditions would you wanting to do that? Thanks.

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Anand this is Sarvjit again. I will leave the MTN question to Akhil; he will back come to you on that. As far as Capex is concerned we gave some guidance in the last quarter that overall we are looking at from a consolidated Bharti Airtel point of view somewhere around \$3.5 billion for the year and I wish \$2.5 billion would be for Bharti Airtel's standalone the balance thing obviously for passive infrastructure business. If you look at the quarter you will see that we have invested somewhere around just under a billion dollars this quarter overall consolidated of which two-thirds has been for Bharti Airtel standalone. So on that basis there is nothing that I can add to that, we still believe that should be the case for the year and obviously if anything changes at some point we will let you know accordingly. I will hand over to Akhil for MTN.

Anand Ramachandran - Citi Group - Hong Kong

Sir if I could just interrupt you, when you say passive is this Infratel in seven circles or is this something on Indus?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Yes.

Akhil Gupta – Group Lead Director - Telecom

This would not include Indus, Indus is a separate joint venture, and this billion would be approximately for Infratel only.

Anand Ramachandran - Citi Group - Hong Kong

For seven circles. Thanks.

Akhil Gupta – Group Lead Director – Telecom

Anand as far as MTN is concerned for the last few months I think this has been a subject of such intense speculation. I think it has taken already a lot of media space and so I think at this point what happened with us, why we withdrew all that is public knowledge, we came out with a very transparent press release explaining the circumstances due to which we had withdrawn, then there was their talk with Reliance Communication again that is all in public knowledge and that is called off. Now what happens in future is I think again very speculative at this point and I do not think we would like to add any more to that confusion or speculation. Let me suffice at this point by saying that it is our company's policy that we would not like to comment on speculation and since unfortunately everything to do with MTN at this point of time will purely & squarely be within the realm of speculation, I think we will have to refrain from making any comments on that.

Priyanka - Moderator

Thank you, Mr. Ramachandran. Next question comes from Mr. Tim Storey from J P Morgan, Hong Kong. Mr. Storey, you may ask your question now.

Tim Storey - J P Morgan - Hong Kong

Thank you for the call this afternoon. Just two questions on the regulatory front - can you give us an update on the 3G process in terms of licensing and the expectations for how you believe that is going to unfold into timing and pricing potentially, and then secondly also an update on how you see more number of portability developing, any preparation you are making in anticipation of that. Thank you.

Manoj Kohli - Chief Executive Officer - Bharti Airtel Ltd.

Thanks this is Manoj. On 3G front, we are awaiting the final policy of Government of India on what kind of methodology it will follow for allocating the spectrum, I think very soon that policy is expected. The spectrum, which is being feed up for this purpose I think is also happening quite swiftly. So we are hopeful that 3G policy should be out soon. As soon as the policy is out we will get ready for the methodology of spectrum allocation and then finalize our 3G plan soon thereafter. On number portability, our Bharti systems are all ready. Our IT systems are all ready, but consultation with TRAI is going on. The readiness of TRAI, readiness of other operators is also coming up, so I believe that MNP should happen sometime in early part of next year 2009, exact dates we cannot predict because I think the systems need to be in place.

Tim Storey - J P Morgan - Hong Kong

Maybe this is a followup. Can you describe anything you are doing in terms of thinking about retention policies in light of the mobile number portability?

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Manoj Kohli - Chief Executive Officer - Bharti Airtel Ltd.

The retention of customers is the normal job of Bharti Airtel and I think we would do everything to retain our customers and that is why if you see this quarter's results our churn rates have come down both postpaid churn has come down and prepaid churn has come down, which clearly means that we are retaining more customers than ever in the past and going forward I can definitely say with confidence that we will retain more customer and in MNP maybe we will attract some more customers from other operators to our networks.

Tim Storey - J P Morgan - Hong Kong

Thank you, very much.

Priyanka - Moderator

Thank you, Mr. Storey. Next question comes from Mr. Sameer Naringrekar from BNP Paribas, Mumbai. Mr. Naringrekar, you may ask your question now.

Sameer Naringrekar - BNP Paribas - Mumbai

Good afternoon gentlemen. A couple of questions first is regarding the jump in network costs, is that primarily an effect of the full period impact of the tower company or should we look at it as an increase in the network costs for the future expansion. The second question is related to impact of license fees, are you seeing an increase in license fees primarily due to expiration of the moratorium granted to you?

Sanjay Kapoor - President - Mobile Services

Sameer this is Sanjay Kapoor. First on the network cost yes, you are right the jump that you see is because I had mentioned earlier that last quarter you had seen an impact of the tower company for only a part period and this is for the full period, so obviously that's the impact that is visible to you. On your next question...

Manoj Kohli - Chief Executive Officer - Bharti Airtel Ltd.

The other question was on license fee, you are right. Certain impact is because of the revenue growth in this quarter and the balance impact is of the withdrawal of the moratorium for six circles, where the license fee would go up by 2percentage points.

Sameer Naringrekar - BNP Paribas - Mumbai

That is all. Thank you very much.

Priyanka - Moderator

Thank you Mr. Naringrekar. Next question comes from Mr. Anurag Dhanwantri from Porter Orlin, New York. Mr. Dhanwantri, you may ask your question now.

Anurag Dhanwantri - Porter Orlin - New York

Hi, two interrelated questions. There has been lot of news flow recently, Ericsson came out couple of days back and said the network equipment sales in India were lower than they expected. LG missed the Q2 numbers and guided lower for Q3 and said they were disappointed with handset sales into India. Vodafone took the guidance down. Millicom's latest releases littered with references to inflation. My two questions are 1) Are Ericsson's problems Ericsson-specific, or are you seeing slowdown in network rollout by various companies in India and 2) Are you seeing any impact of inflation on how your ARPUs are building out in specific sections of your client base?

Manoj Kohli - President - Bharti Airtel

Hi this Manoj, as far as I know Ericsson's volumes with Bharti are growing very well at a very health cliff and both the new side volumes as well as capacity volumes of Ericsson are growing very well. I really would not be able to comment on Ericsson's volumes with other players of India because it is not transparent to me. The other point you made handset sales is going very well in India, we have seen sales of all leading brand go up in the last one or two quarters. On your other question of inflation I believe that the disposable income available to the customer especially the customers of next strata of society, which is going mobile will definitely come towards the mobile services and really very frankly our growth will continue to grow, growth will continue to be sustained very well. So we really do not see any impact whatsoever of inflation on growth of mobile services in India.

Anurag Dhanwantri - Porter Orlin - New York

Thanks a lot.

Priyanka - Moderator

Thank you Mr. Dhanwantri. Next question comes from Mr. Srinivas Rao from Deutsche Bank, Mumbai. Mr. Rao, you may ask your question now.

Srinivas Rao - Deutsche Bank - Mumbai

Thank you very much sir. I have three questions. One is on your rental yield; the implied rental yield in the tower business based on what you are reporting seems to be around 12.5% to 12.7%. I mean I am just doing the EBITDA per tower actually and dividing it by whatever is the value of the tower that is the number. I just wanted to ask you how does this make sense because when these towers are on your books they would probably have an effective life or the passive infrastructure would have an effective life of at least 15

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years plus, which would mean that in Bharti's books effectively at an implied yield of 6 to 6.5%, so how does actually creating this tower company help from a yield perspective. I seem to be paying more by actually creating the subsidiary. Second question is on your Capex number; assuming that your Capex, which you are now reporting for the wireless business is active Capex, the Capex first of all for this quarter and I know it is not right to look at it but it is about \$54 odd. Is it slightly high compared to what understanding we have of the radio Capex. Could you throw some light on these two aspects sir?

Akhil Gupta – Group Lead Director - Telecom

Well, I think as far as the first one is concerned about the passive infrastructure I think we can offline take up the specific but all I can tell you is that very clearly with the formation of the tower company quite clearly it is something, which is dependent as I said earlier on the business model, which looks at more and more sharing between various operators and that is where the savings come in not only for the tower company but also for all the operators using it. I think your analysis that it was better off earlier within Airtel is absolutely incorrect and perhaps I can ask Sonal to give you some more details on this later, but this is an incorrect analysis. Ultimately as tendencies go up there will be more and more saving but even at the beginning on a standalone basis the operating company does gain, so we could perhaps give you more details and I am sure this business will evolve, from next quarter you will start seeing more movement on a continuous basis so perhaps you could also take it up again next time. As far as Capex is concerned I think it is very wrong to look at Capex on a per customer basis because it is a very complex exercise, it involves not only Capex on mobiles, it has Capex as David was mentioning earlier on the submarine cables, thousands of kilometers of long distance being laid, so that would not be a good analysis at all. But all I can say is that the cost on the mobile front on Capex is not going up.

Srinivas Rao – Deutsche Bank - Mumbai

Fair enough. Thank you very much.

Priyanka – Moderator

Thank you Mr. Rao. Next question comes from Mr. Vinay Jaising from Morgan Stanley, Mumbai. Mr. Singh, you may ask your question now.

Vinay Jaising – Morgan Stanley - Mumbai

Thank you so much sir. Firstly congratulations for the great results. I have two sets of questions; first on the long distance business and second on the wireless tariff sir. On the long distance front, how much is the long distance business, which comes internally and how much is being generated externally? The reason I ask this is the carriage charges they have increased and if it is an internal issue it is fine but if it is increased externally, you know, is everybody else paying for it?

Some kind of flavor there. Also the license fee overall has gone down by 10%, has been just flat at about 10.1% of sales. Typically if the wireless businesses license fee would have gone up it basically means in a way we are transferring the revenues from the wireless business to the long distance business to save license fees internally. Any thoughts on that? My second question is the tariff fall on the wireless business has been about 6 paise - the most we have seen in probably ten quarters. Is there something like changing pattern, local calls increasing, something if you can throw light on than it would be great. Thank you sir.

Akhil Gupta - Group Lead Director - Telecom

Vinay hi, this is Akhil. Well, as far as the tariff is concerned very clearly this was a promise we have always made that as soon as the government cuts or reduces the ADC we will simultaneously pass it on and I think the cut you are seeing in the overall realize per minute is a reflection of that because we have passed on the ADC as you can see steep reduction in STD rates, steep reduction in roaming rates. The entire ADC and perhaps more has already been passed, so we are actually pleased that the customers have gained. On the tariff charge, well we have roughly about 90% or so of the long distance coming from the group as has been the practice, so the others are of course paying at the same rates as Airtel Mobile Services paid. As was mentioned earlier this increase in the rates is not a transfer from here to there, it is very clearly a correct analysis based on the actual cost of carrying these minutes as you can well imagine with over 80,000 kilometers of optic fibre across the country. This is a hugely capital intensive business, we are spending thousands of crores every year setting up again thousands of kilometers of optic fibre going deeper into the country and if you see the carriers business it has an EBITDA of about 42%-43%, which for such a capital intensive business, only I can say just a reasonable margin and not something very abnormal, so the whole exercise was to reflect the correct costing, to really look at the transfer pricing in the manner it should really be and to bring it in line with what is being charged by our competition in the market particularly BSNL, so that is how that exercise was done.

Vinay Jaising – Morgan Stanley - Mumbai

Sir, just a little bit more on that, you know, my fear here is there are two more results coming in of other operators in the same business. We will be seeing the license fees as well as the wireless business EBITDA margins. The thought which comes to my mind, is there are BSNL or TATACOM and external operator who also give carriage charges. Now their margins are nowhere close to this, the 40%-45%, which you have mentioned. Is it better for the mobile division of Bharti Airtel probably to go to tame them just because they could get better rates or is this an industry phenomenon, I do not know that answer, which is why I was trying to ask that question. Also on the license fee, your overall license fee is still 10.1% that has not gone up. You want to throw some light there, sir?

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Akhil Gupta - Group Lead Director - Telecom

I think as far as the carriage charge is concerned certainly I think since different businesses run at different segments they have to be competitive and if our mobile division can get it at better rates from elsewhere I would not be certain whether the business will go away, but certainly the rates will have to come down between our various divisions but clearly that is not the case because as you know BSNL charges 65 paise we charge definitely lower than that, so we are very competitive, we are cost based and therefore it is a very competitive industry which we survive in. I cannot comment really on their margins or anything like that because I do not have much information. As far as the license fee is concerned I think comparing a percentage maybe more valid in case of just one division or an operator, which has only perhaps mobile as the operations. As you know, we have a very significant business outside mobile as well. For instance, I believe on the mobile now our the overall EBITDA revenue percentage is coming down there are other businesses, some of which like passive infrastructure would not have license fee, so on an overall basis I think 10.1% reflects a weighted average of all the businesses taken together and cannot just be tied to mobile.

Vinay Jaising – Morgan Stanley - Mumbai

Thank you sir.

Priyanka – Moderator

Thank you Mr. Singh. Next question comes from Mr. Sachin Gupta from Lehman Brothers, Singapore. Mr. Gupta, you may ask your question now.

Sachin Gupta – Lehman Brothers - Singapore

Thanks very much. I just have two questions. Firstly on just the margins as acknowledged to the prior period is not very comparable but any indication of where you see the mobile margin settling, is 30% the base or you could see it getting any lower given the noise and the risks on competition that is the first question. Secondly, it just a related question, the inflation look rather than an impact on your retail customer, just wondering any comment on the impact on your corporate customer, so if you exclude the 192 new customers you have had in the last quarter any change in the spending pattern for these customers?

Manoj Kohli – President – Bharti Airtel

Let me first start with margins, I think our margins as Akhil said will be stable, the over all margins north of 40%, the mobility margins are north of 30%, so they should be stable around this base figures. On inflation, I can tell you I have been meeting enterprise customers and I do not think we have seen any reduction in our telecom spend. Of course every customer demands certain degree of efficiency from us, which we are helping for example video conferencing, audio

conferencing and such new products are being picked up very well, which were not being picked up till about six months back, so we continue to give efficiency to our customers and I believe that we will gain more market share of enterprise customers. I will just request David to add to this, David.

David Nishball – President – Enterprise Services – Bharti Airtel

Thanks Manoj, this is David Nishball. Just to add we have seen no major change in the spending pattern of our corporate customers. I think over time what we have seen is any time there is inflation that the relative IT spend and telecommunication spend of customers relative to their turnover stays to be generally constant and in fact what happens is the telecommunication services end up getting substituted further factors of production, so we are seeing a significant uptake in things like audio conferencing, video conferencing, we are also seeing obviously pricing pressure in the market but generally the pricing pressure gets reinvested in more IT applications that will save other cost in the business.

Sachin Gupta – Lehman Brothers - Singapore

Thanks very much.

Priyanka – Moderator

Thank you Mr. Gupta. Next question comes from Mr. Pankaj Kapoor from ABN AMRO, Mumbai. Mr. Kapoor, you may ask your question now.

Pankaj Kapoor – ABN AMRO – Mumbai

Hello sir. Congratulation for a good set of numbers. Three questions, first is on the elasticity that you are seeing in the mobile business, any comment on that in terms of is it peaking out or you see that the elasticity will continue to expand here. Second, on the other income we had seen a sharp jump in this quarter, so any particular thing over here, which maybe one-off kind of a thing and third, on the tax rate, which this time was lower than the range, which you have been traditionally guiding for, thank you.

Sanjay Kapoor - President - Mobile Services

Pankaj let me take on your first question on elasticities that we are experiencing. Obviously, this journey started with us getting into lifetime value products becoming very cheap, which was in the third quarter of last year and we saw huge elasticity during fourth quarter then during this quarter we have gone and again flexed the STD and roaming rates very severely and again you have seen elasticities, last quarter about 33 minutes went up, this quarter about 27 minutes went up per customer, so we still see that there are pockets where customers have opportunities to consume more, there is no reason why when we compare India with

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some other countries like Venezuela and USA who consume 1200 minutes and 800 minutes, we are far below at 500 odd minutes, there I am sure there are some elasticity lines especially at the tariffs that we operate on. So up to now I think elasticities are showing up well and we are hopeful that there are still opportunities left. Sarvjit you want to take on the other income.

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Hi, Pankaj. Just on the other income we had a better number of credits in here, the major one being on insurance claim, so that has come through in the quarter.

Pankaj Kapoor – ABN AMRO – Mumbai

Thanks.

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Do you have a question on tax as well?

Pankaj Kapoor – ABN AMRO – Mumbai

That is right.

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Can you just repeat the question?

Pankaj Kapoor – ABN AMRO – Mumbai

Tax rate this time I believe was slightly lower than what is traditional that you have been guiding for at least in the last quarter we spoke of around 15%-16% kind of a range. So do we see the same thing happening for the full year any thought on that?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Tax is higher this quarter than previous quarter, so we would expect that to continue somewhere between 12% and 14% this year.

Pankaj Kapoor – ABN AMRO – Mumbai

Okay, thanks sir.

Priyanka – Moderator

Thank you Mr. Kapoor. Next question comes from Mr. Shubham Majumdar from Macquire Capital, Mumbai. Mr. Majumdar, you may ask your question now.

Shubham Majumdar – Macquire Capital – Mumbai

Hello everyone, I have a few questions. I will start up with the key element of costs that surprised negatively in this quarter, which is network Opex. On a conservative basis when you look at network Opex do you only ascribe that too much higher charges on electricity and fuel that would have probably come through in this quarter. What other elements of network Opex would you attribute this big rise to and secondly, how will you consolidate the Indus Towers financials when Indus towers actually gets operational as you said, from next quarter onwards how will the tower numbers change as you show in passive infra services and will it be proportionate consolidation or will it be a 100% consolidation followed by minority interest. Three is, I would be very keen to know how you have actually shown a massive increase in realization in terms of per tenant rental in passive infrastructure services and it is a pretty commendable jump, so while your tenants ratio has not increased your realization per tenant has increased but at the same time I see that your EBITDA margins in passive infrastructure services have marginally come down why would that be so and realizations are going up in a business where huge opening leverage is there and finally there seems to be a very sharp EBITDA per minute compression in your wireless business from 26 minutes to 20 minutes odd in this quarter. Obviously, what is commendable is your volume of minutes carried on the network is extremely strong but the realization at the EBITDA level especially has come down quite significantly and, finally, what percentage of your wireless revenue has come from corporate and post paid customers, thank you.

Sanjay Kapoor - President - Mobile Services

Shubham, I will answer your first and the last question and leave the Indus and the infrastructure questions to Akhil. You are right that on the network Opex it is fuel cost and electricity charges that have surged up and we are all aware that the fuel prices have gone up significantly across the globe, so that is one reason but the key reason that I explained earlier was that you see the full impact of infrastructure companies floating in to our books this quarter compared to the last quarter. So that is the delta, which really is accounting for the increase that you are seeing. On your last question where you are saying EBITDA per minute compression you are right and I tried to explain this earlier that particularly for this quarter you saw a steep reduction in national long distance and national roaming charges, which are resulting in what we believe is the temporary fall in revenues and eventually it should catch up. The tower rentals last quarter were for a part of the quarter and again the same reason repeats and there has been an increase in carriage charges to reflect actual cost, which are in line with the market realities especially in comparison with BSNL. So I think these three are vital reasons for which you saw depression in the EBITDA per minute, but overall if you really look at our EBITDA

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margins, which is what you should look at that is the correct way of looking at things. We are back at 41.5%, which clearly says that at a group level we are sustaining our EBITDA margins. I will pass on to Akhil for the balance two questions.

Akhil Gupta - Group Lead Director - Telecom

Well, on the passive infrastructure very clearly these are very early days for these two companies. This is practically the first quarter really when the rentals have started there, the EBITDA to total revenue as you can see is still slightly low it should be going up as more tenancies increase. As far as the realization per sharing operator per month is concerned, it has marginally gone up by 6% as compared to the last quarter, which can be a combination of many factors - the areas where the new sites are coming, every place could have slightly different premium depending on the difficulty of that, but I would say I think the next quarter should start giving more of a comparable figures on these. All I can say is that on the towers front I think it is settling down very well and I am very confident that while these businesses on their own will do well, the operators not only Airtel but all the other operators who will be sharing the sites are going to have some significant benefits because they all need to share these infrastructures. I think as operators we are in no position any longer to have the luxury of our individual chartered towers, I think we all need to share it with each other and bring the cost down. One more question, well, I think Indus Towers financials on the accounting standards I think in IGAP I believe will be on a proportionate basis line-by-line, but for US GAP it will only have the equity accounting, which means it straight away goes whatever is the share of the net profit.

Shubham Majumdar - Macquarie Securities-Mumbai

Akhil if I understand it right it will basically be 42% of the profits of Indus will show up as associate income?

Akhil Gupta - Group Lead Director - Telecom

That is right.

Shubham Majumdar - Macquarie Securities-Mumbai

Given that your outside tenancy potentially has not gone up on a quarter-on-quarter basis because your tenancy ratio at 1.22 remains pretty much the same, firstly, I would like to understand why are we not seeing any traction in outside tenancy especially in the six Bharti Infratel circles given Vodafone is readying its launch and Idea is also probably readying its launch in a few circles and so is Aircel so on and so forth. What is your take on that and, secondly, I mean is there a sort of a hike that we are saying that Bharti wireless is paying to Bharti Infratel in terms of tower realization.

Akhil Gupta - Group Lead Director - Telecom

As far as the tenancy factor is concerned very clearly as I mentioned are still early days the new operators including Vodafone, Idea and everybody else they are still in the process of getting the spectrum, have just in some places recently got it, some of the new operators have got it for a few circles not all. So I think these things will settle down as we go along in this year and I have absolutely no doubt that with the formation of Indus we are already seeing more and more demand coming firstly from these three partners in that business for sharing. I expect the tenancies to be going up as we go along in this year. I have absolutely no doubt that will bring a lot of benefit but this being virtually the first quarter for all practical purposes I think it will take some time for these companies to settle down but overall I have no doubt that these will go up quite clearly. As far as the charges paid by Airtel are concerned, well, these are exactly on a non-discriminatory basis vis-à-vis any other operator. So these are standard MSA or Master Service Agreement rates, which apply as much to Airtel as would apply to any other operator.

Shubham Majumdar - Macquarie Securities-Mumbai

Okay and just if very small one, which would probably left out was very broadly what percentage of your wireless revenues would be coming from corporate and post paid or contract customers?

Akhil Gupta - Group Lead Director - Telecom

We unfortunately do not give these details because this can be very highly competitive information.

Shubham Majumdar - Macquarie Securities-Mumbai

Any guidance for IPTV launch timing or any progress on that account, we have not heard anything in two quarters on that Akhil?

Akhil Gupta - Group Lead Director - Telecom

Let me ask Atul to give you a rundown on that.

Atul Bindal - President – Broadband & Telephone Services – Bharti Airtel Ltd.

Thanks very much, this is Atul here. We are poised to enter the media segment we are ready with our DTH plans. We have launched the internal employee testing phase, right now we have there a few thousand installations, which are already in progress and we hope that it could be a very exciting rollout and we would be repeating essentially the prepaid mobile success story. It would be completely backed by a brand customer service and the distribution infrastructure and technology and it would be a

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differentiated service delivery vis-à-vis competition. We would simultaneously be looking at IPTV as well but it would be confined to certain top cities where we have high-speed broadband bandwidth operation. We are currently awaiting certain government clearances with respect to downlinking policy but otherwise over the next few months you should see us hitting into both these product services and that would be the media portfolio for us.

Shubham Majumdar - Macquarie Securities-Mumbai

Thank you all very much, I really appreciate.

Atul Bindal - President – Broadband & Telephone Services – Bharti Airtel Ltd

Thank you.

Priyanka – Moderator

Thank you Mr. Majumdar. Next question comes from Ms. Reena Verma from Merrill Lynch, Mumbai. Ms. Verma, you may ask your question now.

Reena Verma – Merrill Lynch – Mumbai

Thank you very much for this opportunity. Just a few questions - one is on your network cost Sanjay if you can please elaborate a little what do you mean by full impact of infrastructure companies because as we see your numbers, the number of owned versus total towers as in the number of borrowed towers has not gone up very significantly whereas the network costs have gone up on a combined basis as in on a consolidated basis, so what is that element you are talking about please. I will stop there and then carry forward with the rest of the questions.

Sanjay Kapoor - President - Mobile Services

Reena, it is not the number of towers, it is the number of months. In last quarter the impact taken for the infrastructure company was for two months compared to the full quarter this last quarter.

Reena Verma – Merrill Lynch – Mumbai

We are talking about consolidated numbers right; we are talking about network cost at a consolidated level?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Hi this is Sarvjit. Let me just explain this to you. If you look at the delta from one quarter to the next, two or three factors are impacting here. One is; as Sanjay mentioned earlier the impact of full quarter, we have also added 7000 sites, so that's actually where you get

the full impact of that as far as that compares into this quarter that network Opex has flown through. Secondly, energy costs have increased in the quarter. These are the couple of factors actually impacting what you have seen as far as network cost is concerned.

Reena Verma – Merrill Lynch – Mumbai

So you are saying that the rental, which you have paid for borrowed sites last quarter was not fully reflected or you hadn't borrowed as many sites as you have this quarter in the last quarter?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

That is not relevant because consolidation would eliminate that. It flows through our actual sites, the Opex on the sites and as you go through you are talking about 15,000 sites in the last three quarters and you get a full impact of Q4 into Q1 plus energy cost increase.

Reena Verma – Merrill Lynch – Mumbai

So it is basically higher pass through expenses of the towers that you share?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Let me discuss that with you offline, I would like to chat with you.

Reena Verma – Merrill Lynch – Mumbai

Okay and my second question maybe if you can just guide us based on your experience of global telcos is it normal to have long distance EBITDA margin per minute or long distance profitability being much higher than wireless because that is quite contrary to what you know one would think of a retail business versus a wholesale business?

Manoj Kohli - Chief Executive Officer - Bharti Airtel Ltd.

Reena, this is Manoj. I do not think global benchmarks on many of these things will apply to Indian business. I believe that we have reduced the Capex intensity of mobile business, but we have increased the Capex intensity on the long distance business. Therefore long distance business deserves to have a healthy EBITDA margin which I think it is moving towards and finally very frankly as we have said earlier please look at the overall margins of the company. I believe that EBITDA is gradually losing its meaning, we should look at the overall gross revenue growth, overall profitability, profit growth of the company and that is how you should gauge the company. Now the segment profitability because of our unique business model, because of the

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unique circumstances will be dynamic and will continue to change according to the needs of the hour.

Reena Verma – Merrill Lynch – Mumbai

I did not follow what is unique about Indian circumstances for wholesale versus retail?

Akhil Gupta – Group Lead Director - Telecom

I think Reena the unique circumstances, which we have on wholesale versus retail is if you note our carrier business we do not lease the bandwidth from anybody else. What you generally see on wholesale businesses is that a whole lot of bandwidth, which they use in terms of the minutes traffic is leased and that is why you see the margins being very, very low as far as the EBITDA margin is concerned. In our case since all the traffic, which we carry in our carriage business is purely on our own networks, which needs a huge amount of capital expenditure, it is only obvious that to cover up the capital expenditure, the interest cost, the depreciation, the EBITDA margin has got to be higher, so you are perhaps right in saying what is unique between India and rest of the world I agree, there is nothing unique here, but the model where we are basing this business on capital expenditure versus leasing it from somebody in terms of bandwidth and then offering it as minutes to others that is the difference here. And as you can imagine anything which has very high capital expenditure has got to have a higher EBITDA otherwise the depreciation interest cannot be covered.

Reena Verma - Merrill Lynch - Mumbai

I will leave it there, just two other questions. One is if you can please update us Akhil on the regulatory side of the business please. Have you heard from the DOT on the proposal to increase the annual spectrum fee and what are the nature of one-time spectrum enhancement charges that the policy makers maybe discussing with you in terms of how to fix them if at all?

Akhil Gupta – Group Lead Director - Telecom

Well Reena very clearly I think different views come from different quarters on various subjects as far as regulation is concerned. It is our belief that anything, which affects the entire industry has to be dealt with at the industry level, which is the association which has been formed by the industry players and therefore obviously we are not in receipt of anything from DOT, we have been reading like you, there are some proposals, I think there has been some correspondence with COAI and we fundamentally believe that on these matters it is wrong for individual players to start commenting on matters which affect the entire industry because the industry associations are formed for this purpose where they can bring around the view points of various industry players on a particular point of regulation and present it as a cohesive and a compromise situation in some situations, so I will not be able to give you any specific comments from our side

because fundamentally we believe individual players must refrain from commenting on industry matters.

Reena Verma - Merrill Lynch - Mumbai

Lastly on the DTH license and on your Sri Lanka launch, if you can please help us revisit the timelines especially because on DTH there were some talks about your license being suspended in the media, I mean, there were some media reports to that effect. If you can help us understand the issue please?

Manoj Kohli - Chief Executive Officer - Bharti Airtel Ltd.

Okay Reena I will just talk about the DTH license and request Atul to come back for DTH launch and Sanjay will share the Sri Lanka plans. On the licensing part, let me completely assure you that we are fully compliant with the all the licensing conditions. The DOT or the Ministry of I&B keep on asking some queries here and there and we keep on responding promptly to these queries, so please rest assured that we are completely compliant and the license is safeguarded.

Atul Bindal - President – Broadband & Telephone Services – Bharti Airtel Ltd

Reena, Hi, this is Atul here just to reiterate we are absolutely compliant as far as DTH is concerned. On the IPTV there are a couple of queries from I&B, which basically pertain to the downlinking policy, which is awaited from the government's side and that should be in place over the next few weeks. DTH launch is in a state of near readiness right now. In fact, just barring a few elements of the overall marketing mix and the business plans, which we do want to keep confidential for competitive reasons, the rest of the mix and the launch plans are being soft tested & soft launched amongst our own employees. The early results and reports have been extremely encouraging. The team is raring to go and we hope to take advantage of a large part of this year, so in the new future you should see us rollout with our DTH products and services.

Sanjay Kapoor - President - Mobile Services

Reena, on Sri Lanka launch as we had stated earlier, we are on track for the launch this year and hopefully by the time we talk next probably you will hear some more.

Reena Verma - Merrill Lynch - Mumbai

Sure, thank you very much, that is it from me.

Priyanka - Moderator

Thank you Ms. Verma. Next question comes to Mr. Rahul Singh from Citi Group Mumbai. Mr. Singh, you may ask your question now.

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Rahul Singh - Citi Group – Mumbai

Good afternoon everyone. I have two questions, firstly I do not know whether someone has asked this earlier but the NLD traffic from your captive mobile business used to be two-third of your total NLD traffic at some point of time maybe about couple of years back. Just wanted to get a sense whether that two-third number has gone up over the last one or two years as other operators have also commenced their own NLD business and, secondly, on the equipment supply payables looking at your balance sheet for the last four quarters, it has remained fairly stable at about Rs. 60 billion for the last four quarters. Just wanted to get a sense whether that is on account of the fact that the MOU growth has actually lead to almost full utilization of the networks, which means that the equipment supply payable number is not going up and would that mean that in the coming quarters we would see an increase in the Capex numbers to anticipate the next level of growth, if you can just answer these two questions that will be great.

David Nishball - President – Enterprise Services – Bharti Airtel

This is David Nishball. I will take the first question. As Akhil mentioned earlier, for NLD voice business, group is the largest contributor to that business and yes over time the percentage of NLD voice traffic that is coming from the group has increased and you see us spot-on in terms of reason for that actually there are two reasons for that. One of the reasons is that the group has been outperforming the market in terms of growth and revenue market share, so we are seeing an increase in the group traffic because of better performance by the group relative to its competitors, but also as you pointed out as new NLD operators are coming to the market, it took them a very, very long time to actually rollout their own networks. Many of them have finally completed both regulatory clearances as well as the technical work to rollout their networks over the last three or four quarters and as they have done that they have reduced the traffic getting to us and increased the traffic to carry on their own networks and I think that is a continuing trend that we will see again as these carriers with NLD licenses reach maturity. As new carriers enter the market in the future though I think you may see that trend reverse again with brand new carriers coming to the market that do not have NLD license of their own and who will probably go through the same two or three year cycle before they can go and start putting the traffic on their own network. Now again I will just point out, what I just spoke about is true for NLD voice only. For NLD data, the traffic is predominantly non-group. Group is a minority of the business for NLD data business and for our ILD voice and our ILD data business our group is also a minority of that traffic.

Sanjay Kapoor - President - Mobile Services

Rahul, on your question on the Capex, if you really watch our annualized revenues to our gross block you will find that continually we are maintaining around

73%-74% utilization and that is how the capital gets planned out, so it is very much in line with the revenues and the minutes that we are producing, so I do not see any abnormality over there.

Rahul Singh - Citi Group – Mumbai

My question was actually more from a cash flow point of view. It does seem like that you have reached a level of the equipment supplies payable credit, which is probably going to remain stable despite the fact that the Capex is going up because your utilization is also keeping pace at a very strong pace because MOUs are growing, so from a balance sheet point of view and this could be more a question to Saravjit that the equipment supply payable number is probably going to remain flat or am I reading too much into the trend for the last four quarters?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

It depends on what we do as far as our strategy is concerned for investment, so obviously we have been consistently investing every quarter and we did about 3.5 billion last year and we are likely to do similar amount this year, so with the equipment supplies payable you are seeing a flat picture because payments are done over time that is why you are seeing it is somewhere around Thousand crores.

Rahul Singh - Citi Group – Mumbai

Okay, thanks everyone.

Priyanka - Moderator

Thank you Mr. Singh. Next question comes from Mr. Sanjay Chawla from JP Morgan Mumbai. Mr. Chawla, you may ask your question now.

Sanjay Chawla- JP Morgan- Mumbai

Hi congratulations on a good set of results and thank you for the call. I have four questions. One is if the NLD carriage rate had not been increased this quarter then how would your mobile EBITDA margin have looked like, that is one. Second is your NLD traffic quarter-on-quarter that you have reported has grown by only 9.8%, whereas in the previous quarter it was doing a double-digit rate quarter-on-quarter. It is a bit surprising because we saw some of the biggest NLD tariff cuts this quarter, which is also showing up in your mobile MOU growth as well, MOU per sub growth, so if you could just provide some color on that why the NLD minutes growth has been only in single digit this quarter. Third is, if you could comment on the depreciation increase in this quarter, which seems to be lower in the context of the Capex that you have incurred and fourth is, on the spectrum fee hike, are you expecting that hike of 1%-2% of AGR? That sort of a

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hike to be retrospective from April 2008 or do you think the actual effective date could in the future?

Sanjay Kapoor - President - Mobile Services

Sanjay here, I will answer the first and the last question and then probably ask David to address your question on NLD. You know, very clearly on the last one where you are talking about the license fee, we feel that this is still not a policy that is out and we would leave it to the industry to dialogue it with the government and its speculative in the nature at the moment and I would not like to comment any further on that at the moment. Can you repeat your first NLD question?

Sanjay Chawla- JP Morgan- Mumbai

If NLD carriage had not been raised how would your mobile EBITDA margin have looked like for this quarter?

Sanjay Kapoor - President - Mobile Services

Well, what I can share with you is that there are three things that have been accountable for it, which is the access charges, the full impact of the Tower Company and STD and roaming rates. However, I cannot share with you what would it collaborate to in terms of percentages, I mean, that is information that we would not like to give out.

David Nishball - President – Enterprise Services – Bharti Airtel

In terms of your question about the trend rate in NLD minutes. The change in the trend rate for NLD minutes is entirely due to non-group traffic. Again, as I mentioned earlier that is primarily due to the fact that the NLD carriers have spent the last two years building their own networks and have finally started migrating traffic and that has happened for the last two quarters and it will probably continue for another quarter or two until much of their traffic, the easy traffic is being carried on their own networks but continue to give us the hard-to-reach areas and the difficult traffic to carry because their networks are obviously not as extensive as ours. If I remove the impact of the non-group traffic from a pure group traffic NLD volume it is a consistent increase on a quarter-by-quarter basis and in fact it is better than a normal first quarter.

Sanjay Chawla- JP Morgan- Mumbai

Can I just ask a related question on this; did you say that the captive NLD traffic is 90% of your total NLD traffic?

Sanjay Kapoor - President - Mobile Services

That is right, only voice.

Sanjay Chawla- JP Morgan- Mumbai

Right, so you referring to NLD, not ILD plus NLD?

David Nishball - President – Enterprise Services – Bharti Airtel

No for ILD it is a minority of our ILD traffic; it is a minority of our ILD business.

Sanjay Chawla- JP Morgan- Mumbai

Okay, the question on depreciation?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

Sanjay, Hi Sarvjit. The passive infrastructure obviously has a higher life and we migrated to the independent unit last quarter, so that flow-through takes place now .

Sanjay Chawla- JP Morgan- Mumbai

Just a follow up on the interconnect cost issue, I mean, we have seen interconnect cost in rupee terms being flat quarter-on-quarter. I guess we would not have expected this given the increase in MOU that you have seen in your mobile business because of the reduction in NLD tariffs?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

This is a mix of various elements, you have margin propensity of group traffic, you have the ADC changes, so all those things put together has resulted in that kind of a picture this quarter.

Sanjay Chawla- JP Morgan- Mumbai

Does it also mean that because of the investment that is going into your NLD network and POI you are incrementally able to see more and more on interconnect cost?

Sarvjit S. Dhillon - Chief Financial Officer - Bharti Airtel Ltd.

That has been routine business that flows through every quarter anyway.

Sanjay Chawla- JP Morgan- Mumbai

Right, thank you.

Priyanka - Moderator

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Thank you Mr. Chawla. Next question comes from Mr. Rajiv Sharma from HSBC Mumbai. Mr. Sharma, you may ask your question now.

Rajiv Sharma - HSBC - Mumbai

Thanks for the opportunity. I have couple of questions. First question is, in January you mentioned that you will be receiving or you are eligible for spectrum in eight markets, so what is the status of spectrum in these markets? Secondly, on your long distance margins are these sustainable at 42% going forward, can we use this as a guidance that, we are likely to sustain given that 90% of traffic is captive, so are these sustainable margins and thirdly, there has been news flow around regulatory looking into termination charges, so if they were to reduce, what would be the impact on your overall margins?

Sanjay Kapoor - President - Mobile Services

Rajiv again first and third question I will take, this is Sanjay Kapoor and I will ask David to answer your second question. You are right that in January we told you that there are eight circles in which we are expecting spectrum and you will be glad to know that we got in all eight circles. There are seven pending circles for which applications have been made and hopefully we should follow similar trends of sanction over the next few months. As far as the termination charges are concerned, again, I think this is speculative in nature and this is something that industry is taking up with the regulators and the government. We will like to comment on this once we are close to a policy that gets formulated.

David Nishball - President – Enterprise Services – Bharti Airtel

Rajiv on your question on carrier margins, again the carrier margins based upon the prices that we now have in the market, you know, look to be about right to us and we do not see any problem with these kinds of margins, although I would not want to speculate on how the margins might move in the future. There is also, I mean, we have been focusing on this change of NLD pricing as the main focused area, which predominates the quarter-on-quarter movement, but also there is another underlying factor here too because the ADC reduction has come down. The ADC reduction reduces our topline because we pass that on to our customers. It really does not change our bottom line because it is offset by the cost reduction on our access charges. Over time actually we will see the EBITDA margins will actually improve as ADC comes down as a technical reason behind some of the changes as well.

Rajiv Sharma - HSBC - Mumbai

One follow up question. On your passive infrastructure business if I multiply the rent per operator per month with the tenancy ratio and the number of towers, I arrive at a service revenue of about 4.5 billion INR, but this revenue reported in this segment is about 10 billion. Is

there certain cost items, which are also collected on behalf of the tenants and at Infratel level who is the other tenant on your towers because we understand that both Vodafone and Idea are not sharing towers with Bharti in these seven markets?

Akhil Gupta – Group Lead Director - Telecom

Well, there is certainly, besides the recurring charges for the service, there is also the energy charges. That is why there would be difference in the total revenue. As far as this quarter was concerned all the towers revenue was under Infratel and therefore these towers were shared by Vodafone, Idea, Aircel and I think many other operators.

Rajiv Sharma - HSBC - Mumbai

So this is not Infratel only, this is...

Akhil Gupta – Group Lead Director - Telecom

For this quarter, ultimately as Indus starts I think those towers in those 16 circles the rentals will get transferred there.

Rajiv Sharma - HSBC - Mumbai

Okay. Thanks a lot.

Priyanka – Moderator

Thank you Mr. Sharma. Next question comes from Mr. G .V. Giri from IIFL Capital Mumbai. Mr. Giri, you may ask your question now.

G V Giri - IIFL Capital – Mumbai

Thank you very much. This is about comment about your network quality, which people have given feedback about Mumbai. I do not know if it is true about other cities as well. It is supposed to be somewhat worrisome, so would you consider that as an action priority if it is true for other cities as well and are you moving to take some action on it. Number two, in your broadband your growth Q-o-Q revenues was only 2.5%. It has been a little higher than this and I understand that it is because you are restricting yourself to about 94 cities. Do you have plans for beyond these 94 cities? And the third question is you had said earlier in the call that the one billion Capex on towers is only going to be for the seven circles of Infratel and that seems to be almost double the wireless Capex that you will do in those circles if I just take a crude proportion and is that an accurate observation?

Akhil Gupta – Group Lead Director - Telecom

Let me comment on the passive side, yes we should have about a billion dollars or so in passive

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infrastructure for the seven circles and part of that would be as I mentioned the tenancies would be going up quite significantly, so there is some expenditure on upgradation of some site replacement of batteries and so on, so it is not really comparable to the expenditure which Airtel as an operation would be doing on the active network because that business is catering to many other customers as well. Let me handover to Sanjay on the network quality and then Atul on the telemedia.

Sanjay Kapoor - President - Mobile Services

G. V. you have posed a very sensitive and current topic. Let me tell you network quality is probably the single most vital ingredient for the success of any operator and specially Airtel. We actually take pride in the fact that we support one of the finest networks not only across the country but probably comparable to any other operator in the world and our capital investments and our market share growth is reflective of what we have brought to the customer. Unfortunately, in Mumbai I do not know whether you have read the news and papers, a very severe fire broke out at one of the buildings and that was not our fault but by the power company that brings the power into that building. There was a transformer that burst into flames and unfortunately the fire carried through the duct right up to upper floors where we were located on the first floor and our entire switch room caught fire and very vital part of our network actually got destroyed. Now companies like us do plan for redundancies and business continuity plans that is why a switch was available at Mape and also space was available to put in additional capacities, but by the time we could enter the building it took huge time for fire bodies to allow us to get in and then for us to assess the loss. Now this sort of a loss is something which is out of the ordinary and it has taken us a long time to reconfigure the whole of that substantial part of the network, so the problem in Mumbai is because of a catastrophe that has happened and you will be very glad to know that we have actually recovered bulk of it in the first five or six days. I believe we are working on a war footing to make sure that within the next three or four days you will see complete normalcy in Mumbai. There is no way that Airtel can be a national leader without Mumbai being absolutely a gold-plated network and I assure you that give us a little more time, you will see a sea-change, but this is something that was beyond our control and I am sure you will appreciate what we went through.

G V Giri - IIFL Capital – Mumbai

Thank you for your answer sir, although my observation was related to periods prior to this incident happening and it was just a feedback for you and I do not claim that it is a scientific way to measure the network quality to just take feedback from others, but that is a fact that such feedback does come

Sanjay Kapoor - President - Mobile Services

You know, I take cognizance of your feedback, probably I will ask Sonal to get a few more details

because network has to be optimized patch by patch and I appreciate your feedback and experience. We will see what we can do to correct it in the parts that you experienced the network, so I will ask Sonal to get in touch with you please.

Atul Bindal - President – Broadband & Telephone Services – Bharti Airtel Ltd

G.V. Hi, this is Atul here let me take the broadband part of your question. We remain focused on executing strategy as per the business model that we had shared earlier. You are right we are focused on the top 94 cities only and within these cities it is really ARPU sustenance and consolidation in margin expansion, which are really the goal those drivers. This strategy is broadband first and data first. The strategy is flat plans, the strategy is deeper and not wider and vertical and not horizontal. We believe that this strategy is actually paying us back very handsomely. If you look at the growth year over year for the same quarter, the broadband revenues are now up almost 48% and this has actually resulted in an EBIT flow through, which is up almost 110% or so. So we would continue to stay the course as far as this is concerned. Obviously we would also explore and add new towns and cities as they meet this criteria, so that goes back to the comment, which Manoj made earlier, we are gearing up to launch Surat and there is a soft launch, which is on right now of our broadband and landline operations but by and large it would be a very, very focused strategy because we believe that, that is the only viable and economical way to go forward and then do this business in a healthy manner.

G V Giri - IIFL Capital – Mumbai

Thank you sir.

Priyanka - Moderator

Thank you Mr. Giri. Ladies and gentlemen, due to constraints of time we are unable to entertain any further questions. This brings us to the end of the question and answer session. I would now handover the call proceedings back to Mr. Manoj Kohli for the final remarks.

Manoj Kohli - Chief Executive Officer - Bharti Airtel Ltd.

Thank you. I think it has been a very, very good call with all our friends here. I would once again like to thank all of you for participating in this call. We look forward to another outstanding quarter to come and we will be in touch with you in the month of July. Thank you.

Priyanka - Moderator

Ladies and gentlemen, this concludes the earnings call. You may now disconnect your lines. Thank you for

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connecting to audio conference service from Airtel and have a pleasant evening.

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