**Red Herring Prospectus**

Please read Section 60B of the Companies Act, 1956

Dated [•] *(will become Prospectus on the date of filing with the RoC)*

*(Red Herring Prospectus will be updated upon RoC filing)*

**100% Book Building Issue**

bharti

# Bharti Tele-Ventures Limited

(Incorporated as a public limited company on July 7, 1995 under the Companies Act, 1956)
Registered Office: Qutab Ambience, H-5/12, Mehrauli Road, New Delhi 110030, India
Phone : (91-11) 6641321 Fax : (91-11) 6641327 Email : bhartiipo@bhartient.com

## Public Issue of 185,336,700 equity shares ("Issue") of Rs.10 each for cash at a premium of Rs.[•] per equity share aggregating Rs.[•] million.

**The Issue is being made through 100% Book Building Process wherein 60% of the Issue shall be allocated to QIBs on a discretionary basis, 15% would be allocated to Non-Institutional Investors and 25% would be allocated to Retail Investors on a proportionate basis, subject to valid bids being received from them at or above the Issue Price.**

### Risk in Relation to First Offer

This being the first offer of the equity shares of Bharti Tele-Ventures, there has been no formal market for the equity shares of the Company. The Issue Price (as has been determined and justified by the Company in consultation with Book Running Lead Managers on the basis of assessment of market demand for the equity shares offered by way of Book Building) should not be taken to be indicative of the market price of the equity shares after the equity shares are listed. No assurance can be given regarding an active and/or sustained trading in the equity shares of the Company nor regarding the price at which the equity shares will be traded after listing.

### General Risk

Investment in equity and equity related securities involve a degree of risk and investors should not invest any funds in this Issue unless they can afford to take the risk of losing their investment. Investors are advised to read the risk factors carefully before taking an investment decision in this Issue. For taking an investment decision, investors must rely on their own examination of Bharti Tele-Ventures and the Issue including the risks involved. The equity shares offered in the Issue have not been recommended or approved by the Securities and Exchange Board of India (SEBI) nor does SEBI guarantee the accuracy or adequacy of this red herring prospectus. Specific attention of the investors is invited to the statements on Risk Factors beginning on page number i of the red herring prospectus.

### Issuer's Absolute Responsibility

Bharti Tele-Ventures, having made all reasonable inquiries, accepts responsibility for, and confirms that this red herring prospectus contains all information with regard to Bharti Tele-Ventures and the Issue, which is material in the context of the Issue, that the information contained in this red herring prospectus is true and correct in all material respects and is not misleading in any material respect, that the opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this document as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect.

### Listing Arrangement

The equity shares are proposed to be listed on The Delhi Stock Exchange Association Limited (Regional Stock Exchange), The Stock Exchange, Mumbai and the National Stock Exchange of India Limited and in-principle approvals for listing have been obtained from the aforesaid stock exchanges.

## BOOK RUNNING LEAD MANAGERS

JM MORGAN STANLEY

**JM Morgan Stanley Private Ltd.**
141, Maker Chambers III,
Nariman Point, Mumbai 400 021.
Tel.: (91 22) 230 3030 Fax: (91 22) 230 1694
Email: gaurav.gupta@morganstanley.com

DSP Merrill Lynch

**DSP Merrill Lynch Ltd.**
Mafatlal Centre, 10th Floor,
Nariman Point, Mumbai 400 021.
Tel: (91 22) 232 8000 Fax: (91 22) 232 8079
Email: aradhana_dhand@in.ml.com

## REGISTRARS TO THE ISSUE

**Karvy Consultants Ltd.**
**Unit: Bharti Tele-Ventures Limited - Public Issue**
"Karvy House", 46 Avenue 4, Street No.1,
Banjara Hills, Hyderabad 500 034.
Tel. (91 40) 331 2454 Fax.: (91 40) 331 1968
Email: bhartitele@karvy.com

| ISSUE PROGRAMME | | |
|---|---|---|
| BID / ISSUE OPENS ON | : | MONDAY, JANUARY 28, 2002 |
| BID / ISSUE CLOSES ON | : | SATURDAY, FEBRUARY 2, 2002 |

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***In this red herring prospectus, the terms "we", "us", or "our", unless the context otherwise implies, refer to Bharti Tele-Ventures and its subsidiaries, Bharti Cellular, Bharti Mobile, Bharti Telenet, Bharti Mobitel, Bharti Mobinet, Bharti Comtel, Bharti Telesonic, Bharti Broadband, Bharti BT, Bharti BT Internet, Bharti Tele-Spatial, Bharti Aquanet, SC Cellular, Welldone Impex and JD Projects. Bharti Tele-Ventures is a holding company and conducts its business through these subsidiaries and the present Issue is being done on the basis of a consolidated valuation of Bharti Tele-Ventures and its subsidiaries. Investors should note that the valuations could undergo material change should the equity stake of Bharti Tele-Ventures in its subsidiaries be diluted or they cease to be subsidiaries of Bharti Tele-Ventures. The terms "Bharti Tele-Ventures" and the "Company", unless the context otherwise implies, refer to Bharti Tele-Ventures Limited, on an unconsolidated basis.*** *Our financial year ends on March 31 of each year, so all references to a particular financial year are to the twelve months ended March 31 of that year.*

## FORWARD LOOKING STATEMENTS AND MARKET DATA

We have included statements in this red herring prospectus which contain words or phrases such as "will", "aim", "will likely result", "believe", "expect", "will continue", "anticipate", "estimate", "intend", "plan", "contemplate", "seek to", "future", "objective", "goal", "project", "should", "will pursue" and similar expressions or variations of such expressions, that are "forward-looking statements". Actual results may differ materially from those suggested by the forward looking statements due to risks or uncertainties associated with our expectations with respect to, but not limited to, our ability to successfully implement our strategy, our growth and expansion, changes in the regulatory framework including license fee and interconnection arrangements, technological changes and our exposure to market risks. By their nature, certain of the market risk disclosures are only estimates and could be materially different from what actually occur in the future. We, the BRLMs, Syndicate Members or their respective affiliates have no obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of unanticipated events, even if the underlying assumptions do not come to fruition. In accordance with SEBI requirements, the BRLMs and Bharti Tele-Ventures will ensure that investors in India are informed of material developments until such time as the grant of listing and trading permission by the Stock Exchanges.

Market data used throughout this red herring prospectus was obtained from internal company reports and industry publications. Industry publications generally state that the information contained in those publications has been obtained from sources believed to be reliable, but that their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe that market data used in this red herring prospectus is reliable, they have not been independently verified by us. Similarly, internal company reports, while believed by us to be reliable, have not been verified by any independent sources.

## RISK FACTORS

*You should carefully consider the risks described below before you make an investment decision. Risks have been quantified, wherever possible. The trading price of our equity shares could decline due to these risks and you may lose all or part of your investment.*

### Internal Risks - Factors relating to us

***We face several risks associated with the implementation of new projects and recently acquired businesses.***

We have recently entered into licenses to operate eight cellular networks, four fixed-line networks and restored our Punjab cellular license that we are developing. We have also entered into a license with the DoT to provide national long distance services, for which we are developing a nationwide fiber optic network. In building out our networks, we face several risks, including:

- the projects that we propose to implement are capital intensive and have long gestation periods and their cash flows are uncertain. Our budgeted resources for implementation of these new projects may be inadequate and we may incur time and cost overruns, which could adversely affect our earnings;

- we may not be able to recruit skilled and experienced manpower to set-up and operate our new networks in a timely manner;
- our inability to obtain or install the equipment on time or to our satisfaction even though we have entered into contracts with suppliers for our expansion plans and have commenced placing orders;
- intense competition, as we will be entering as the second, third or fourth operator in our new circles and we will be competing against established operators;
- our inability to meet minimum roll-out obligations stipulated under the licensing terms for our new cellular, fixed-line and national long distance businesses; and
- the services we intend to provide may not achieve the requisite levels of market acceptance.

We have recently acquired a 100% equity interest in Bharti Mobitel, the cellular service provider in Kolkata. We may be subject to the risks relating to technology and manpower integration, and integration of procedures, policies, and processes. In addition, we are incurring amortisation expenses related to goodwill and other intangibles, which would impact our financial performance over a period of time.

In order to reduce our costs and speed our entry into three of our eight additional circles in which we intend to offer cellular services, we have entered into cellular infrastructure sharing agreements with the Escorts group of companies. While we believe that such an arrangement will aid the execution of our cellular business strategy, this is the first time we have entered into such an arrangement. As a result, problems in implementing this arrangement could arise and we may not be able to realise the expected benefits.

Any failure to successfully integrate newly acquired businesses or manage the growth of our new projects may adversely affect our business and the implementation of our business strategy.

***We have substantial capital requirements and will require additional financing in the form of debt or equity to meet our requirements.***

Our businesses are highly capital intensive and have long gestation periods. We require additional financing to complete our roll-out plans for our new networks. The actual amount and timing of our future capital requirements may differ from our estimates as a result of, among other things, unforeseen delays or cost overruns, unanticipated expenses, regulatory changes, engineering design changes, weather related delays, technological changes, including additional market developments and new opportunities in our industry.

Sources of additional financing may include commercial bank borrowings, vendor financing, or the sale of equity or debt securities. If we decide to raise additional funds through the incurrence of debt, our interest obligations will increase, and we may be subject to additional covenants, which could limit our ability to access cash flows from our operations. If we decide to raise additional funds through the issuance of equity, your ownership interest in us will be diluted. In addition, our ability to raise equity funds is limited by foreign ownership restrictions imposed on us by Indian law and the terms of our licensing arrangements, which stipulate that our total foreign equity investment should not exceed 49% of our paid-up capital.

We cannot assure you that we will be able to raise adequate financing on acceptable terms, in time, or at all. Our failure to obtain sufficient financing could result in the delay or abandonment of our development and expansion plans, the failure to meet roll-out obligations pursuant to our licenses or our inability to continue to provide service in all or a portion of our markets.

***Our businesses face significant competition from existing private operators and potential new entrants, including Government-controlled companies.***

There is substantial competition in the Indian telecommunications industry. As the telecommunications industry is further liberalised, we expect competition to intensify as new entrants begin to compete against us, our existing competitors further consolidate and we enter new markets where we compete with well established competitors.

Competition with existing competitors in our cellular markets has been, and we believe will continue to be, intense. The Government-controlled company, MTNL, entered the Mumbai and Delhi cellular markets in early 2001, which resulted in a significant reduction in prevailing market tariffs. The Government-owned company, BSNL, has a right to offer cellular services in all circles, other than Mumbai and Delhi. BSNL recently announced that it intends to offer cellular services. In the recently concluded bidding process in July 2001, the Government also awarded a license to one additional operator in each of our existing cellular circles. The entry of these operators is expected to increase competition in our existing service areas substantially, which could adversely affect our business. In the nine additional cellular circles where we intend to provide services, we face competition from two existing private operators, and possibly MTNL or BSNL.

In our existing fixed-line business, we compete with the incumbent operator, BSNL. In addition, the Government has permitted unlimited competition throughout India, which has led other private sector operators to announce plans to roll-out their fixed-line networks. In the three additional circles where we intend to provide services, we will be competing with MTNL or BSNL and any other private fixed-line operator that may decide to commence services in that circle.

We have entered into a license to provide national long distance services, which is also open to unlimited competition. We will face significant competition from the incumbent operator, BSNL, and from other private operators, one of which is actively building a national long distance network across India.

The Indian telecommunications industry has also experienced significant consolidation in the recent past, and this trend may continue. For example, besides the acquisitions made by us, BPL Communications and Birla Tata AT&T have proposed a merger of their operations and Hutchison Max has also acquired other cellular networks, including our competitors in the Delhi and Kolkata cellular circles. These consolidations may result in the surviving entities emerging as the dominant players in the Indian cellular industry. Such consolidation could result in the players having access to greater resources and competence and hence the ability to compete more effectively.

***We have significant litigations or disputes pending against us.***

*We may incur significant liabilities in relation to our operation of the Punjab license.*

Our license to provide cellular services in Punjab was terminated on July 15, 1999 due to the non-payment of dues claimed by the DoT and disputed by us. In September 2001, we accepted an offer from the DoT demanding the payment of Rs.4,910 million as a condition to the restoration of the Punjab license and referring to arbitration our dispute in relation to the payment of license fees for a period of 693 days during which cellular services could not be provided in Punjab. Accordingly, the Punjab license has been restored in the name of Bharti Mobile and the dispute regarding the payment of license fees in respect of the disputed period has been referred to arbitration, and proceedings have commenced on October 9, 2001.

We believe, based upon legal advice, that our final liability will not exceed Rs.800 million and have provided for Rs.800 million in our IAS consolidated financial statements for the financial year 2000 since we acquired management control of Bharti Mobile in November 1999. The additional amount of Rs.4,110 million has been considered as recoverable in our consolidated financial statements and has consequently not been provided for. However, as the matter is under arbitration, there can be no assurance that our liability as determined by the arbitrator will be limited to Rs.800 million and, accordingly, that we will be able to recover all or any part of the Rs.4,110 million that we have considered recoverable. For details of the pending arbitration, please refer to “Outstanding Litigations and Material Developments” on page number 126 of this red herring prospectus.

Bharti Mobile entered into agreements of financial arrangement on September 6, 1996 with Evergrowth and Essar Investments Limited, or Essar, wherein Essar was to provide necessary funding and facilitate implementation of the Punjab license through Evergrowth. Pursuant to these arrangements, until such time as the loan, accrued interest thereon, or any other sums due or payable under the arrangement are outstanding, Essar has been given powers to govern the operating and financial policies of Evergrowth and thereby derive benefits from its operations. Essar funded Evergrowth to operate the Punjab license and provide cellular services in Punjab. Subsequently, Evergrowth defaulted in the payment of license fees and other dues to the DoT resulting in the termination of the Punjab license on July 15, 1999. Bharti Mobile has notified Essar on September 21, 2001 that the agreements entered into with Essar stand terminated. In addition, on September 22, 2001, Bharti Mobile, in its acceptance of the restoration offer of the DoT, has confirmed that it would not implement the Punjab license through any of its subsidiaries, including Evergrowth and the DoT has specifically noted this statement in its records.

We believe, based upon legal advice, that Essar has no rights under these agreements to make claims against us. However, there can be no assurance that no claim will be raised by Essar under these agreements, including claims for any expenses incurred by it to implement the Punjab license or in respect of a Rs.300 million loan extended by Essar to Bharti Mobile pursuant to these agreements.

*Our acquisition of 40.5% of the outstanding equity of Bharti Mobinet from Crompton Greaves and our agreement to acquire the remaining outstanding equity of Bharti Mobinet is the subject matter of litigation.*

Bharti Mobinet is the holder of a cellular license for the Chennai circle. We have acquired an aggregate 89.5% equity interest in Bharti Mobinet from its former shareholders, Crompton Greaves Limited, or Crompton Greaves, Bellsouth and Millicom. Recently, in a Board meeting held under the chairmanship of a Court-appointed Chairman, we acquired additional shares in rights issues by Bharti Mobinet, thereby increasing the percentage ownership held by us to 95.3%. Our acquisition of the 40.5% interest held by Crompton Greaves has been challenged by an existing shareholder, DSS Enterprises Private Limited, or DSS, in the City Civil Court at Delhi and the litigation is pending. For details, please refer to “Outstanding Litigations and Material Developments” on page number 126 of this red herring prospectus.

We also entered into a separate agreement with DSS to acquire their equity interest in Bharti Mobinet. However, the acquisition of shares held by DSS has not been completed and resulted in litigation between DSS and us, including cases for specific performance and mandatory injunction filed by each party against the other. We sought to purchase the shares held by DSS for an aggregate consideration of Rs.410 million based on our agreement with them. On November 21, 2001, we withdrew our suit because we no longer are seeking specific performance of the contract, although DSS continues to seek an amount of Rs.625 million as consideration for such sale based on a different agreement alleged by them to have been reached between us and have also made certain allegations in respect of certain management and shareholder issues including the rights issues and the sale and purchase of Bellsouth and Millicom shares by the Company. This case remains pending before the Delhi High Court. In respect of the same alleged transaction relating to the sale of the shareholding of DSS in Bharti Mobitel, Crystal Technologies Private Limited, or Crystal, an intermediary in the transaction, has filed an application requesting the appointment of an arbitrator to adjudicate a dispute between the Company and Crystal under an agreement alleged to have been executed between the Company and Crystal. Even if the decisions are adverse to Bharti Tele-Ventures in respect of both the dispute raised by Crystal and DSS, we believe, based on legal opinion, that Bharti Tele-Ventures may not be exposed to a pecuniary liability which will exceed Rs.625 million. For further details, see to “Outstanding Litigations and Material Developments” on page number 126 of this red herring prospectus.

*There is ongoing litigation with respect to the ownership of certain shares of Bharti Mobile and our present 74% effective equity interest in Bharti Mobile may be diluted.*

We currently own an effective 74% equity interest in Bharti Mobile (formerly known as JT Mobiles Limited), the cellular service provider in the Karnataka, Andhra Pradesh and Punjab circles. There is a pending litigation in the High Courts of Delhi and Karnataka by Parasrampuria Credit and Investment Ltd., or PCIL, claiming a 20% interest in the share capital of Bharti Mobile formerly held by United Telecom. Pursuant to share acquisition arrangements, United Telecom’s shareholders now own equity shares of Bharti Tele-Ventures. While we believe that PCIL’s claim is without merit, there can be no assurance that our effective equity interest will not be diluted from the present 74% effective equity interest in Bharti Mobile as a result of such litigation. For further details, see “Outstanding Litigations and Material Developments” on page number 126 of this red herring prospectus.

***Other Litigations:***

There are a number of other legal cases with respect to us and our subsidiaries and our promoter, which as of the date hereof we believe are not material to our business as a whole.

For further details, see "Outstanding Litigations and Material Developments" on page number 126 of this red herring prospectus.

***We have presented our consolidated accounts in accordance with the International Accounting Standards, which could be materially different from the consolidated accounts which we will be required to prepare under Indian Accounting Standards.***

Under the present Indian Accounting Standard requirements, we are not required to present consolidated accounts. However, we have presented our consolidated accounts in accordance with International Accounting Standards (IAS) in this red herring prospectus, which differ materially in certain respects from the generally accepted accounting principles under Indian Accounting Standards. From the financial year 2002, under Indian Regulations, we will also be required to present our accounts on a consolidated basis under Indian Accounting Standards. We intend to present these accounts in addition to the consolidated IAS accounts. There could be material differences between the consolidated accounts prepared in accordance with IAS and Indian Accounting Standard due to different policies with regard to treatment of line items such as investment in subsidiaries, goodwill, license fees, foreign exchange transaction, deferred taxation, pre-operative and preliminary expenditure. The disclosure, presentation or classification may also differ which would effect the manner in which events and transactions are presented in the financial statements and notes thereto. We cannot estimate the net effect of the differences, as we have not as yet prepared the consolidated financial statements under Indian Accounting Standards. However, based on proforma unaudited consolidated estimates for the six-month period ended September 30, 2001 prepared in accordance with Indian Accounting Standards by the management of Bharti Tele-Ventures, we estimate the result of difference between IAS and Indian Accounting Standards (IAS - Indian Accounting Standards) for revenue, EBITDA, Net Loss, goodwill and shareholders equity to be approximately Rs.(80) million, Rs.260 million, Rs.(40) million, Rs.10,200 million and Rs.2,800 million, respectively. There is an amount of approximately Rs.12,700 million on account of unamortised licence fees, as per the porforma unaudited consolidated estimate for the six month period ended September 30, 2001 prepared in accordance with Indian Accounting Standards by the management of Bharti Tele-Ventures. Investors should note that these differences are only management estimates and have neither been reviewed nor audited by our external auditors and there may be significant differences between these management estimates and audited numbers.

***Our businesses compete against Government companies who may have significantly greater resources than us. Failure to ensure a level playing field may affect our business.***

Our proposed expansion into additional circles for the provision of cellular and fixed-line services, national long distance services and broadband solutions are subject to competition from existing players, which includes the Government-owned or otherwise controlled companies, BSNL, MTNL and VSNL.

These companies may have significantly greater resources than those available to us. In recent years, these companies have undertaken to significantly expand and modernise their networks and offer better quality and a wider range of services and may be significant competitors in our various businesses.

While the TRAI, as the regulator, and the TDSAT, as the appellate authority, have been granted certain powers to ensure a level playing field among various operators, there can be no assurance that the Government will ensure a level playing field among the Government companies and private network operators, such as us. There can be no assurance that we will be able to compete successfully with any of such Government-controlled competitor and failure by the Government to ensure a level playing field may affect our business.

***Our lenders have significant rights to determine how we conduct our cellular and fixed-line businesses, which may not be in the best interests of us or our shareholders.***

Bharti Cellular, Bharti Telenet and Bharti Mobile have entered into various financing arrangements that grant the lenders significant rights to determine how such companies are operated. Pursuant to certain of these agreements, these companies require the consent of the lenders to undertake significant actions, including, among other things, to record changes in shareholding, to enter into new licenses or new circles, to acquire or operate new businesses. The lenders under these agreements also have the right to, among other things, appoint nominee directors to the boards of these companies and ensure that those nominees are members of the management or other board committees of those companies. They also have the right to review the management organisation and restructure these companies, if in their opinion, the business of these companies are being conducted in a manner opposed to public policy or prejudicial to the interests of the lenders. The lenders also have the right to appoint and change to their satisfaction key technical, financial and executive staff of Bharti Telenet and Bharti Cellular, in case of a default.

The lenders of Bharti Cellular also have the right to prevent these companies from removing any person exercising substantial powers of management over its affairs and approve the terms and condition of the appointment of the Managing Director or any other person holding substantial powers of management for these companies. In addition, consent is also required to set up new entities or subsidiaries or assume additional debt. We had undertaken some of these actions without receiving lender consents and are now in the process of obtaining such consents. While we have good relations with our lenders, and have obtained consents from some of the lenders, we cannot assure you that the other lenders will grant the required consents. Failure to obtain such consents may lead to the termination of credit facility, acceleration of all amounts due under the facility and cross default provisions. For further details of our financing arrangements, please see “Description of Certain Indebtedness” on page number 147 of this red herring prospectus.

***Restriction on foreign investment in Bharti Tele-Ventures limits our ability to raise capital outside India.***

We have relied on investments by our foreign shareholders to expand and grow our business. The Foreign Investment Promotion Board, or FIPB, of the Government of India has approved the Offering, pursuant to their letter dated December 21, 2001, on the condition that the post-Offering foreign equity investment in Bharti Tele-Ventures is no greater than 49%. Following the completion of the Offering, our existing foreign shareholders will own approximately 41.7% of our then outstanding equity capital. Assuming the balance of the approximately 7.3% of the post-Offering equity capital of Bharti Tele-Ventures is placed with foreign investors, our ability to seek and obtain additional equity investments from foreign investors will be constrained, which could adversely affect our ability to raise capital and grow our business. This restriction could also affect the value of our equity shares traded on the Stock Exchanges by restricting the ability of financial institutions, such as FIIs, to invest in our equity shares.

***We may not be able to successfully integrate into our operations our new billing systems or they may not perform as expected.***

Presently, our various cellular and fixed-line networks have different billing systems procured from different suppliers. In order to streamline our billing procedures and provide a uniform standard of service to customers across all our existing and new cellular networks and across our existing and proposed fixed-line networks, we are in the process of implementing the *Kenan* billing system from Lucent for such networks. The proposed billing systems are currently under customization and are expected to be implemented with the launch of services in the new circles. For instance, in the Haryana circle where the fixed-line services have been recently launched, the *Kenan* billing system has already been installed. We have committed substantial resources for this implementation and we expect that these billing systems will provide us flexibility in tariffing, analytical tools and access to superior information enabling us to cater to different market segments and effective implementation of a customer relationship management system. However, we cannot provide any assurance that our efforts will be successful or that the requisite improvement in the quality in billing systems will be achieved.

***The expansion and development of our existing cellular and fixed-line networks and the services we offer are subject to uncertainties.***

We plan to increase the capacity of our existing cellular and fixed-line networks to meet expected growth in demand for our services. Our development and expansion plans are subject to uncertainties and contingencies, which could delay the expansion of our services and increase the cost of construction and development. In our cellular business, we may experience difficulties in obtaining additional frequency spectrum and permission to interconnect with the networks of BSNL or MTNL, as is required under our licensing arrangements. For our fixed-line network, we require right of way approvals from local authorities for building-out our network and are required to meet minimum roll-out obligations under the terms of our licenses.

While we have successfully executed projects in the past, there can be no assurance that we will be able to execute our strategy on time and within budget or that we will achieve the planned network quality, capacity, revenue or customer base. Any failure to do so could adversely affect our earnings. Larger network operations will also increase our fixed operating costs, and there can be no assurance that we will experience a sustained increase in revenue to offset these higher costs.

***The success of our business is substantially dependent on the services of a few management personnel whose loss could seriously affect our business.***

We have built a strong team of senior and talented professionals to oversee the operations and growth of our businesses. We have a Chairman and Managing Director, two joint managing directors, two presidents, six senior corporate directors, one company secretary, and twenty one senior professionals heading operations in different circles. Our success is substantially dependent on the expertise and services of our management team. The loss of the services of such personnel could have an adverse effect on our business, financial condition and results of operations. Further, our rapid growth may be contingent upon our ability to recruit and retain highly skilled personnel, and on our ability to integrate new personnel into the organization. We also face significant challenges in training our employees to keep pace with continuing changes in technology and customer preferences and our inability to do so successfully could adversely impact our operations.

***We may be required to obtain additional Government approvals that we do not currently have for implementation of our projects.***

We are presently rolling-out networks to provide national long distance services, fixed-line services and cellular services, for which we require approvals from the Central and State governments and local authorities. We may also require approvals for providing services from our proposed submarine cable landing station. We are also awaiting several operational approvals, including the approval from the SACFA, to set up additional cell sites in our existing cellular networks. Although we have applied for and we plan to continue to apply for certain of these approvals pursuant to our roll-out schedule, these approvals may not be available to us in time or on favourable terms and conditions, which may result in time delays and cost overruns and which could have an adverse effect on our business.

***The churn rate of customers in our cellular and fixed-line networks is high and this may result in us incurring additional costs.***

Customer attrition, or churn, results in loss of future revenues from customers whose services are disconnected and also the inability to recoup any unrecovered costs incurred in acquiring the customer. A high rate of churn may adversely affect our business and profitability. While presently the net cost of adding a new customer, which consists principally of a commission expense, is substantially offset by the initial activation fee received by us, there can be no assurance that this will continue in the future. Currently, the churn rate for our pre-paid cellular category is significantly higher than that for our post-paid cellular category. For our pre-paid cellular category, the commission we pay to acquire a customer is less than the activation charges received by us. However, there can be no assurance that this will continue in the future. Although, we have identified churn management as a key focus area and are committed to actively manage our churn by offering loyalty programmes, high quality network services and superior customer care, there can be no assurance that we may be able to control the churn or that a high churn rate may not adversely affect our results of operations.

For the 12 month period ended March 31, 2001 and the eight month period ended November 30, 2001, the average monthly churn rate in our cellular networks was 4.7% and 5.7%, respectively, comprising 7.8% and 7.9% for pre-paid customers, respectively, and 3.5% and 4.5% for post-paid customers, respectively. The average monthly churn rate in our Madhya Pradesh fixed-line network for the 12 month period ended March 31, 2001 and the eight month period ended November 30, 2001 was 2.5% and 1.9%, respectively.

***We have incurred net losses since our inception and expect to continue incurring future losses primarily due to new projects.***

Since our inception, we have incurred net losses on a consolidated basis and expect to continue to incur significant expenditures on account of capital and operational costs. We expect to continue to incur net losses for the foreseeable future. For the year ended March 31, 2001 and the six month period ended September 30, 2001, we incurred a net loss of Rs.1,208 million (US$25.2 million) and Rs.158 million (US$3.3 million), respectively.

The new projects that we are implementing may have initial losses due to various factors, including significant capital expenditure requirements and long gestation periods. Since we account for our net profit on a consolidated basis, our overall results may show a loss for the foreseeable future. Although we have experienced growth in revenues in recent periods, this growth rate may not be indicative of future operating results and we will need to generate significant revenues and efficiently control operating expenses to achieve profitability.

***Bharti Tele-Ventures does not intend to pay dividends to its shareholders for the foreseeable future.***

Bharti Tele-Ventures has not paid any dividends since its incorporation and does not anticipate paying any dividends for the foreseeable future. As Bharti Tele-Ventures' major source of cash flow is expected to be its share of dividends paid by its subsidiaries, receipt of management fees and other receipts from its subsidiaries, Bharti Tele-Ventures' cash flow will be limited as long as its subsidiaries have accumulated losses, which for certain subsidiaries are likely to continue for the foreseeable future. The declaration and payment of any dividends in the future will be recommended by Bharti Tele-Ventures' Board of Directors, in its discretion, and will depend on a number of factors, including Indian legal requirements, its earnings, cash generated from operations, capital requirements and overall financial condition. As of March 31, 2001 and September 30, 2001, Bharti Tele-Ventures' consolidated accumulated losses were Rs.2,330 million (US$48.64 million) and Rs.2,254 million (US$47.1 million), respectively.

In addition, most of Bharti Tele-Ventures' subsidiaries have entered into debt arrangements, which restrict their ability to pay dividends if they are in breach of their obligations under such agreements. Dividend payments by Bharti Tele-Ventures and any of its subsidiaries also require the consent of our strategic and financial partners, SingTel and Warburg Pincus.

***We rely on suppliers and vendors whom we do not control***

We depend upon key suppliers and vendors to provide us with equipment and services that we need to build our networks and upgrade and operate our businesses. Our principal suppliers for our existing cellular networks currently include Ericsson and Nokia, and for our existing fixed-line networks include Motorola, Siemens and Nortel. To expand our existing cellular networks and build-out our nine additional cellular networks, we have entered into contracts with Ericsson, Motorola and Siemens for the supply of equipment. For our four new fixed-line networks, we have entered into contracts with Siemens. We currently source fiber optic cable from vendors such as Lucent, Siemens and Corning, transmission equipment from Nortel Networks, ducts from Duraline, switches and Intelligent Networks from Siemens and ATM switches from Alcatel. We also intend to rely on the services of vendors such as Ericsson, Motorola and Siemens, who are experienced in the design, construction and upgradation of cellular and fixed-line networks, in order to accomplish our build-out and upgrade schedule.

While we believe that our vendors are internationally reputed, our results of operations could be adversely affected if we are unable to obtain adequate supplies of equipment in a timely manner or if the supply of such equipment is discontinued. We also cannot assure you that we will be able to obtain satisfactory service on economically attractive terms or that our vendors will perform as expected.

***Some of our existing shareholders will continue to have the right to approve certain corporate actions even after the completion of the Offering.***

Following the completion of the Offering, Bharti Telecom, SingTel and Warburg Pincus will continue to have the power to control matters requiring the approval of a majority of our shareholders pursuant to the terms of a shareholders' agreement among Bharti Telecom, SingTel and Warburg Pincus.

The shareholders' agreement gives Bharti Telecom, SingTel and Warburg Pincus the right to appoint directors to Bharti Tele-Ventures' Board and the right to approve significant actions at Board and shareholders' meetings, including the issue of equity shares and dividend payments, the approval of business plans, mergers and acquisitions, consolidation or sale of all or substantially all of the Company's assets or any amendment to Bharti Tele-Ventures' Memorandum and Articles of Association. Since only 10% of the post Issue capital is being offered in this Issue, the existing shareholders will collectively have the ability to approve all Board and shareholder resolutions following the completion of the Offering.

Although Bharti Tele-Ventures' shareholders agreement specifies that Bharti Tele-Ventures has a right of first refusal with respect to any telecommunications opportunity in India (other than the development and operation of a submarine cable project between Chennai in India and Singapore), it may not exercise this right if the terms are not favourable.

We are also a party to a shareholders' agreement with a 26% minority shareholder, Telia, with respect to the management of our subsidiary, Bharti Mobile. Telia has the right to approve certain significant corporate actions at the Board and shareholder level, including the right to effect an initial public offering of Bharti Mobile, approval of business plans, dividend payments and acquisition of significant assets by Bharti Mobile.

There can be no assurance that any of Bharti Tele-Ventures' shareholders and strategic partners will not have conflicts of interest with the other shareholders or with us or that they will be able to meet their obligations under their respective shareholders' agreements, including the manner and timing of deploying additional resources in Bharti Tele-Ventures or any of its subsidiaries. Any such occurrences may adversely affect our ability to execute our business strategy or to operate our business. This may also result in a delay or prevention of significant corporate actions which could be beneficial for us or our shareholders.

***Contingent Liabilities as per IAS consolidated financial statements are as follows:***

The Company has committed to spend approximately Rs.4,284 million, Rs.3,556 million, Rs.1,322 million and Rs.2,496 million, as of September 30, 2001, March 31, 2001, 2000 and 1999, respectively, under agreements to expand its cellular and fixed-line networks. These amounts are net of capital advances paid in respect of these capital commitments.

We had outstanding guarantees of Rs.16,557 million, Rs.3,268 million, Rs.2,964 million and Rs.1,716 million, as of September 30, 2001, March 31, 2001, 2000 and 1999, respectively.

Other claims with respect to legal cases against the Company and its subsidiaries not acknowledged as debts as of September 30, 2001, March 31, 2001, 2000 and 1999 were Rs.290 million, Rs.104 million, Rs.70 million and Rs.41 million, respectively.

Other contingent liabilities include the material litigations elaborated above and outstanding performance bank guarantee of Rs.500 million given to the DoT as a security towards non-performance of the village public telephones commitment.

## External Risks – Factors relating to the Indian Telecommunications Industry

***Our business is subject to extensive regulation by the Government, which could have an adverse effect on our business.***

The Indian telecommunications industry is subject to significant Government regulation. The industry is being liberalised and one of our business strategies is to exploit new opportunities afforded by recent regulatory changes, such as the introduction of an additional cellular operator in most of the cellular circles, unrestricted entry in the fixed-line services market, opening up of the national long distance services market and the ability to provide international bandwidth. There is often significant initial uncertainty concerning the scope and impact of many liberalisation measures introduced by the Government and various interested parties often contest such measures. While such actions are being challenged in the courts in India, many operators, including us, may not be able to properly evaluate whether a proposed initiative will be introduced, or if introduced may be on terms that are not favourable to us and we may incur capital expenditures to take advantage of a liberalisation measure which is ultimately postponed or not implemented.

The Government has constituted the TRAI and the TDSAT as autonomous bodies to regulate and adjudicate matters in the Indian telecommunications industry, including issues related to tariffs and interconnection. The DoT currently regulates all matters relating to licensing, ownership and operation of Indian telecommunications networks, including the transfer and assignment of licenses and ownership interests in licensed operators, the granting, maintenance and renewal of licenses and frequency spectrum allocations.

Our telecommunications licenses reserve broad discretion to the Government to influence the conduct of our businesses by giving it the right to modify, at any time, the terms and conditions of our licenses and take over our networks or terminate or suspend our licenses in the interests of national security or in the event of a national emergency, war or similar situation. Under our licenses, the Government may also impose certain penalties including suspension, revocation or termination of a license or suspension of a license, in the event of default by us. Our licenses are for a fixed term of 20 years and there can be no assurance that any of our licenses will be renewed at all or renewed on the same or better terms.

***Competition from WLL technology may adversely impact our cellular revenues.***

The Government has permitted fixed-line service providers to offer their customers limited mobility services using WLL, whereby they can make and receive telephone calls within an SDCA (which is normally equal to a city or a town). The DoT has specified that V5.2 technology or an approved improved version will be deployed for limited mobility using WLL. We believe that the V5.2 technology currently available will significantly restrict the range for limited mobility services using WLL. For customers using limited mobility using WLL, the TRAI has recommended a minimum monthly rental in the range of Rs.450 to Rs.550. Calls are expected to cost the same as fixed-line local calls, which is currently Rs.1.20 per three minutes for outgoing calls with incoming calls being free. While the proposed airtime rates for limited mobility services using WLL are lower than the rates for cellular services, the monthly rentals are higher. Although limited mobility using WLL, in the present form, would face operational challenges such as limited range, no roaming, high monthly rentals and higher cost of CDMA handsets and equipment, a section of Indian consumers may be willing to subscribe to limited mobility using WLL to take advantage of the lower call charges. If significant demand for these services develops in India and is successfully met by fixed-line providers, our cellular business could be adversely affected.

The decision to permit limited mobility using WLL has been challenged by the COAI and the matter is pending resolution before the TDSAT. In the event fixed-line service providers are prohibited from offering limited mobility using WLL, our cellular license agreements stipulate that the license fees payable will be 15% of AGR in all circles as compared with the existing revenue share of 12% in metropolitan areas and category A circles, 10% in category B circles and 8% in category C circles.

***Our ability to offer high quality telecommunications services depends, to a large extent, on the quality of the networks maintained by other operators and their willingness to co-operate with us, neither of which we can control.***

Interconnection with other operators is required for local calls, national long distance and international calls between our customers and subscribers of other networks. The number and points of interconnection and terms thereof between service providers are based on the recommendation of the TRAI and are subject to acceptance by the DoT.

Currently, for a substantial number of calls which originate or terminate outside our network, our ability to provide telecommunications services is dependent on access to and the development, quality and maintenance of other networks. Our cellular networks have experienced congestion, which we believe is due, in part, to the quality of the fixed-line networks of MTNL and BSNL and the limited number of points of interconnection between our networks and those of MTNL and BSNL. Our existing and future cellular, fixed-line and national long distance networks will interconnect with the networks of other cellular, fixed-line and national long distance service providers, including the networks of MTNL, BSNL and VSNL. There can be no assurance that we will have unrestricted access to other networks on terms acceptable to us, or that the quality of those networks will not deteriorate in the future, each of which will have an adverse impact on our ability to offer telecommunication services and could adversely affect our business. Although we expect that the commencement of services by private operators of fixed-line and national long distance telecommunications services will reduce our dependence on BSNL's or MTNL's networks, the timing of their introduction and the regions that will be covered by these operators is as yet uncertain.

***Our interconnection agreements could subject us to significant risks and liabilities.***

A material increase in the interconnection expenses we pay could have an adverse effect on our results of operations. Although the TRAI has the authority to decide matters relating to interconnection arrangements in India, these are still evolving and there continues to be uncertainty as to how they will be implemented. Under our existing interconnection arrangements for calls originating from our cellular networks, we are permitted to retain 5% of BSNL's or MTNL's charges for calls routed through their fixed-line networks. While we are permitted to pass BSNL's or MTNL's charges to our customers without charging any mark up, we bear the risk of non-collection of such charges. Interconnection arrangements will also change substantially if the Calling Party Pays (CPP) regime is implemented and the impact of such changes on our business is uncertain.

***The expansion and development of our networks may be impacted by the limited availability of frequency spectrum.***

The future growth of our cellular business is dependent on our ability to expand our network capacity. A cellular network's capacity is limited by the amount of the frequency spectrum available for its use. Our cellular networks operate on spectrum of 890-960 MHz band. We have currently been allotted spectrum of 6.2 MHz in Delhi, Kolkata, Hyderabad and Bangalore, 5.6 MHz in Chennai, and 4.4 MHz in Karnataka (except Bangalore), Andhra Pradesh (except Hyderabad) and Himachal Pradesh.

Although we believe that our current spectrum allocation is sufficient for anticipated customer growth in the near term, we may need additional spectrum to accommodate future customer growth in the medium and long term. While current regulations provide for the provision of additional need based spectrum on payment of additional fees, there can be no assurance that the WPC will grant us additional spectrum or in a timely or cost-effective manner. Our network expansion plans may be materially affected if we are unable to obtain additional spectrum, which will adversely affect our results of operations. While we are implementing techniques to optimise utilisation of available spectrum such as frequency reuse plans and frequency hopping plans, there can be no assurance that we will be successful in increasing our network capacity to meet our future requirements if we are unable to obtain additional spectrum.

***Implementation of the CPP regime may adversely affect our results of operations.***

It is possible that a CPP regime may be introduced in India soon. Pursuant to the CPP regime, the fixed-line operator will levy an additional charge to its subscriber making a call to a cellular subscriber. A substantial portion of this additional charge is passed on to the cellular operator on whose network the cellular subscriber is based. We believe that based on the experience of cellular operators in other countries, although a CPP regime generally results in an expansion of the overall cellular market and customer base, there is a decrease in cellular ARPU's since revenues from incoming calls are lower. There can be no assurance that our revenues and results of operations will not be adversely impacted as a result of the introduction of a CPP regime.

***Changes in technology may render our current technologies obsolete or require us to make substantial capital investments.***

The telecommunications industry is subject to rapid and significant changes in technology. Although we strive to keep our technology in accordance with the latest international technological standards, the cellular and fixed-line technologies currently employed by us may become obsolete or subject to competition from new technologies in the future. For example, the Government has recently announced that it would permit "voice-over-Internet-telephony" with effect from April 1, 2002. The cost of implementing new technologies, upgrading our networks or expanding capacity could be significant and could adversely affect our results of operations. In addition, our ability to respond to technological changes, including the introduction of the "third generation" cellular technology, may depend upon our ability to obtain additional financing and licenses which we may not be able to obtain or may obtain on terms which may not be favourable to us. Further, as is typical in the case of a rapidly evolving industry such as ours, demand and market acceptance for recently introduced services are subject to a high level of uncertainty. If our services do not achieve requisite levels of market acceptance, our business will be adversely affected.

***We are required to install village public telephones in our existing Madhya Pradesh fixed-line circle, and also meet our roll-out obligations for cellular, fixed-line and national long distance services, within a stipulated time.***

Under the terms of the license agreements for our existing cellular and fixed-line networks, we have certain network roll-out obligations. We have an obligation to install village public telephones in the Madhya Pradesh circle. We have already paid liquidated damages of Rs.40 million to the DoT for not meeting these obligations. Although we have migrated to NTP 1999 for our fixed-line license for the Madhya Pradesh circle, the DoT has informed us that we continue to have an obligation to meet our original commitment for coverage of village public telephones. In this regard, in September 2001, the DoT required us to furnish a performance bank guarantee of Rs.500 million. The TRAI has recently recommended to the DoT that operating expenses incurred by fixed-line operators to meet village public telephone obligations prior to NTP 1999 should be reimbursed from a USO fund that is being funded since NTP 1999. Although the TRAI has been silent on reimbursement of capital expenditures for meeting such obligations, we are seeking to claim an exemption or reimbursement of such amount from the DoT. There can be no assurance that the DoT will accept either the TRAI's recommendation or our claim. Pending the resolution of such matters, we continue to be bound by our village public telephone roll-out obligations and failure to meet such obligations will result in the encashment of the entire bank guarantee. As an extreme measure, the DoT also has the right to terminate our license, which may result in a material adverse effect on our business.

The Government's recent guidelines for issuance of cellular, fixed-line and national long distance licenses specify minimum roll-out obligations in terms of coverage of district headquarters for cellular services, SDCAs for fixed-line services and LDCAs for national long distance services, in addition to requirements to make contributions towards a USO fund. The terms of our new fixed-line licenses require coverage of a point of presence in SDCAs at the end of each phase specified in the license instead of a requirement to provide village public telephones. These obligations may impact our roll-out plan, cause us to incur expenditure in excess of what we may determine on the basis of commercial considerations or cause us to roll-out our network in areas that may not be commercially viable or are less viable. Failure to meet the roll-out obligations gives the DoT the right to terminate our license and may also result in penal actions against us.

***Technical failures and natural disasters could damage our telecommunication networks.***

Our telecommunication networks are vulnerable to technological failures and also to natural disasters such as earthquakes and floods. Our business is dependent on our cellular networks and in particular on our Delhi cellular network, which contributed approximately 79%, 57% and 48% of our total revenues for the financial years 2000 and 2001 and the six month period ended September 30, 2001, respectively. We maintain insurance for our cellular and fixed-line networks, which cover them against damages caused from fire and special perils including earthquakes, flood, storm, riot, strike, and tempest. We do not maintain business interruption insurance to protect us from technological failures or from any other factors that could result in disruption of our business operations. While the amount of our insurance coverage is equal to the replacement value of our existing telecommunications networks, in case of a loss to our telecommunications networks due to any factor, including the ones covered by insurance, our operations and results will be adversely affected. There can be no assurance that any claim under the insurance policies taken by us will be honoured fully or in part and in time.

***A substantial portion of network equipment and handsets are imported and any adverse changes in foreign exchange and import duty rates will adversely affect our business.***

A significant portion of the equipment that will be used in construction of our new cellular, fixed-line and national long distance networks is imported and must be paid for in foreign currency. Import of our equipment is subject to Government regulations and approvals and foreign exchange credit availability. A delay in obtaining required approvals, changes in foreign exchange rates adversely affecting the value of the Rupee or the inability to obtain technology locally could lead to a delay in the supply of necessary equipment, which may adversely impact our operations. Between 1997 and 2001, there was more than a 50% reduction in duties on handsets and other imported equipment. However, there can be no assurance that the Government will reduce import duties further or that it will not reverse recent policies and increase import duties.

***There have been allegations in recent years that there may be health risks associated with the use of portable mobile communication devices, which could adversely affect our business.***

Portable communication devices have been alleged to pose health risks due to radio frequency emissions from these devices. While several mobile communications equipment manufacturers have undertaken studies concerning the health risk from using mobile communications devices and have publicly announced their belief that no such risk exists, the actual or perceived risk of mobile communications devices in India could adversely affect us through a reduced subscriber growth rate or a reduction in subscribers or reduced network usage per subscriber.

**Notes :**

Investors are advised to refer to the paragraph on “Basis for Issue Price” on page number 173 before making an investment in this Offering.

Investors may note that in case of over-subscription in the Issue, allotment shall be on proportionate basis (refer to the paragraph on “Basis of Allotment” on page 306 of this red herring prospectus, in consultation with the Delhi Stock Exchange.

The average cost of acquisition of equity shares by Bharti Telecom, the promoter, Mr. Sunil Bharti Mittal and the employees of Bharti Tele-Ventures and its subsidiaries, is approximately Rs.12.7 per share, Rs.0.91 per share and a price per share equal to 50% of the Issue Price in this Issue, respectively. The book value per share of the Company (adjusted for the bonus issue) as of March 31, 2001 and September 30, 2001, was Rs.14 and Rs.24, respectively and the net worth as of March 31, 2001 and September 30, 2001, was Rs.16.7 billion and Rs.40.4 billion, respectively, as per Unconsolidated Indian Accounting Standards.

Investors are free to contact the BRLMs for any clarification or information, who will be obliged to attend to the same.

Outstanding loans and related party transactions for the period ended March 31, 2001 and September 30, 2001, are on page no. 95 and 185 respectively of this Red Herring Prospectus.

## SUMMARY

*You should read the following summary with the Risk Factors included from page numbers (i) to (xiv) and the more detailed information about us and our financial statements included in this* red herring prospectus.

**India and Indian Telecommunications Industry**

India is the world's largest democracy in terms of population and had a real GNP on purchasing power parity basis of approximately US$2.4 trillion for 2000, making it the fourth largest economy in the world, after the United States, China and Japan, as per the World Development Report for 2000 - 2001.

India has a large pool of qualified and experienced professionals in various disciplines, particularly in information technology. English is widely spoken among professionals and in the business community as well as in many Government offices across India. Successive Governments, since 1990, have laid emphasis on economic reforms resulting in lesser controls and liberalisation of economic policies.

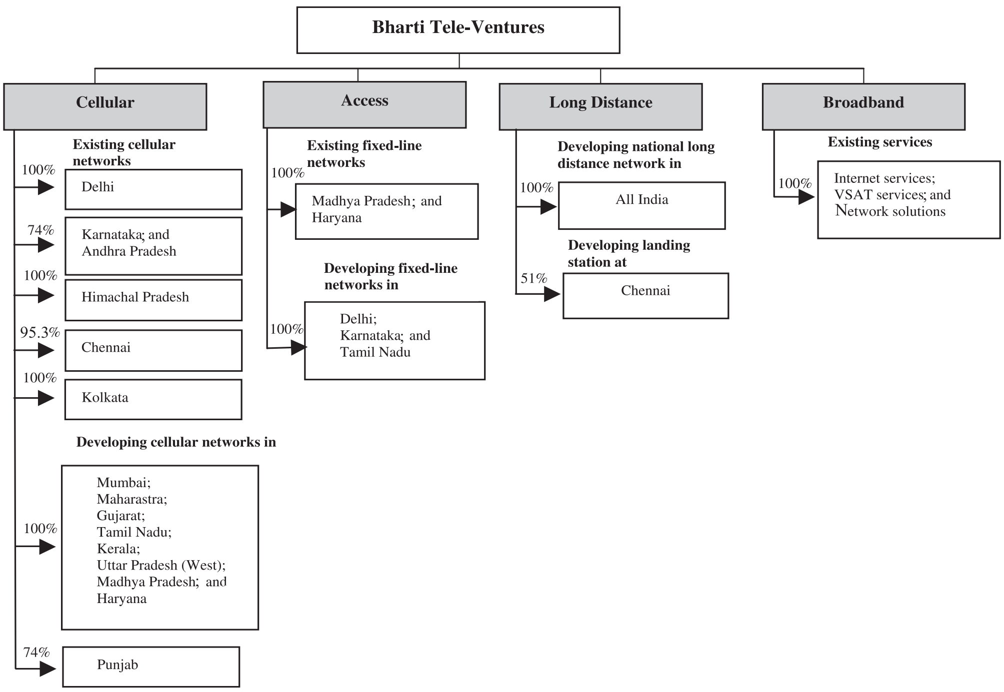
The cellular and fixed-line penetration levels in India are lower than those in most developed countries in the world, offering significant potential for growth in the telecommunications industry. In recent years, the Indian telecommunications industry has experienced high growth. The total number of cellular subscribers in India has increased from approximately 1.2 million as of March 31, 1999 to approximately 5.2 million as of November 30, 2001. The number of cellular subscribers in India is expected to show rapid growth over the next four years. For example,

- the COAI estimates that cellular subscribers will grow to approximately 50 million by 2005; and
- Gartner estimates the cellular subscribers will grow to approximately 31 million by 2005.

**Our Business**

We are India's leading private sector provider of telecommunications services based on an aggregate of approximately 1,340,000 customers as of November 30, 2001, consisting of approximately 1,048,000 cellular, 135,000 fixed-line and 157,000 Internet customers. Cellular services currently constitute the largest portion of our business in terms of total revenues and we expect that this will remain the case for the foreseeable future. We also provide fixed-line, VSAT, Internet and network solutions. We have also commenced offering national long distance services by offering data transmission services and intend to offer voice transmission services shortly. We intend to widen our range of telecommunications services to provide international bandwidth access and international voice services. We seek to capitalise on the growth opportunities that we believe are available in the Indian telecommunications market and consolidate our position to be an integrated telecommunications services provider in key markets in India, with a focus on providing cellular services. For the financial year 2001 and for the first half of the financial year 2002, our revenues were approximately Rs.8.5 billion (US$177 million) and Rs.6.2 billion (US$130 million), respectively, and our adjusted EBITDA was approximately Rs.1.9 billion (US$40 million) and Rs.1.7 billion (US$35 million), respectively. In the same period, cellular services represented approximately 87% and 85%, respectively, of our total revenues.

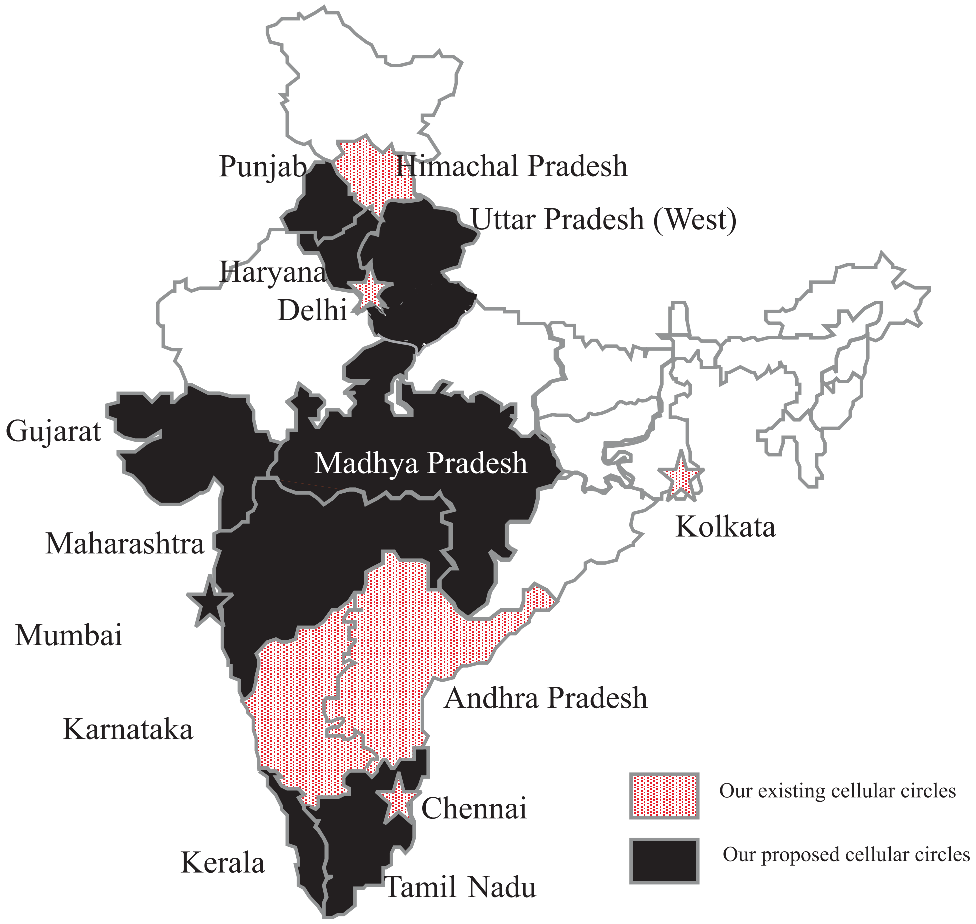
Our operations are organised into the following four principal business areas:




*Percentages in the above diagram represent present effective equity interest of Bharti Tele-Ventures in its subsdiaries.*

**Our Cellular Footprint**

We currently provide cellular services in six of the 22 license areas in India (referred to as circles) and intend to expand our cellular services to cover nine additional circles by the middle of this year. As of November 30, 2001, approximately 92% of India's total number of cellular subscribers resided in our existing and proposed cellular circles. Our cellular coverage in India is depicted below:




The key demographics of the present and proposed cellular circles and a comparison with other leading cellular operators in India is set forth below. The information given below is for the total market and is not representative of our market share or network coverage.

| | Existing licensed area | | | | | Existing and proposed licensed area | | | |
|---|---|---|---|---|---|---|---|---|---|
| | India | Bharti | | Hutchison | BPL – BTAL | Bharti (1) | | Hutchison (2) | BPL-BTAL (3) |
| | | Actual | % to all India | % to all India | % to all India | Actual | % to all India | % to all India | % to all India |
| Number of circles ............................ | 22 | 6 | 27% | 18% | 32% | 15 | 68% | 32% | 36% |
| Area of the circles (in square kilometers, in thousands) (4). ........... | 3,278 | 525 | 16% | 6% | 43% | 1,848 | 56% | 20% | 43% |
| Population in the licensed areas (in millions)(5). .................................. | 1,027 | 167 | 16% | 9% | 38% | 594 | 58% | 22% | 40% |
| Market Cellular subscribers in the licensed areas (in millions) (6). ......... | 5.2 | 2.0 | 38% | 43% | 53% | 4.8 | 92% | 61% | 69% |
| Market DELs in the licensed area (in millions) (7) .................................. | 32.4 | 9.6 | 30% | 25% | 51% | 26.8 | 82% | 43% | 57% |
| Number of vehicles in the licensed areas (in thousands)(8) ..................... | 36,132 | 9,779 | 27% | 22% | 48% | 29,025 | 80% | 39% | 56% |

(1) Comprises our six circles where we have existing operations, and our nine proposed cellular circles where we recently acquired licenses and intend to provide cellular services by the middle of this year.

(2) Consists of the circles of Delhi, Mumbai, Kolkata, Chennai, Gujarat, Andhra Pradesh and Karnataka.

(3) Constitutes the proposed merged entity of BPL and Birla Tata AT&T and the circles consist of Delhi, Mumbai, Gujarat, Maharashtra, Andhra Pradesh, Tamil Nadu, Kerala and Madhya Pradesh.

(4) Area estimates are from National Census, 2001.

(5) Population estimates for all the circles other than the metropolitan areas are as per National Census, 2001 and are as of March 1, 2001. Population estimates for the Uttar Pradesh (West) circle is 37% of the total population of the state of Uttar Pradesh.

(6) Based on data released by the COAI on the total number of cellular subscribers in the circles as of November 30, 2001.

(7) DELs are defined as direct exchange lines representing the number of fixed-line subscribers and are based on data available from BSNL's annual report for 2000-2001 on the number of DELs in the circles as of March 31, 2001.

(8) Vehicles comprise four wheeler and two wheeler non-commercial vehicles and are derived from data released by the Motor Transport Statistics of India as of March 31, 1997 in its most recent report.

**Our Business Divisions**

- We presently offer cellular services in six of the 22 circles in India and intend to provide cellular services in nine additional circles, for which we have entered into licenses with the DoT. As of November 30, 2001, approximately 92% of India's total number of cellular subscribers resided in our existing and proposed cellular circles, according to COAI reports. Our cellular customers in our existing six circles accounted for approximately 20% of the total all India cellular subscriber base, as of November 30, 2001.
- We were the first private sector operator to provide fixed-line services in India. We currently provide fixed-line services in the Madhya Pradesh and the Haryana circle and intend to provide fixed-line services in three additional circles of Delhi, Karnataka and Tamil Nadu for which we have entered into licenses with the DoT. We believe that these circles have high telecommunications revenue potential, especially for carrying data traffic.
- We intend to complement our cellular and fixed-line services with national long distance services and international bandwidth access. We have entered into a license agreement with the DoT to provide national long distance services and are in the process of deploying a fiber optic network across India to provide these services to corporate and individual customers across India. We have commenced data transmission services and intend to commence voice transmission services shortly. We are also constructing a submarine cable landing station in the city of Chennai, through which we intend to provide international bandwidth access for international long distance telecommunications services. Unless the terms and conditions provided in the draft license agreement are altered in a materially adverse manner, we intend to provide international voice services when it is opened for private sector participation.
- We presently provide VSAT based data transmission services to national and multinational corporate customers. We also provide Internet services to residential and corporate customers. We intend to offer secure and reliable end-to-end network solutions to our corporate customers by leveraging the bandwidth available in our subsidiaries through our nationwide fiber optic backbone, last mile connectivity in fixed-line and cellular circles, VSATs and international bandwidth access through our gateways and landing station.

**Our Partners**

Our existing foreign shareholders have acquired direct and indirect equity interests in us for a total consideration exceeding US$1 billion through September 30, 2001. A substantial portion of such investments has been to subscribe to shares of Bharti Tele-Ventures and Bharti Telecom, with the balance to acquire secondary shares of these companies. The investment made by SingTel is their second largest investment outside Singapore. Our financial partner, Warburg Pincus' investment is one of their largest investments made in the world. Our other partners include international financial investors such as International Finance Corporation, Asian Infrastructure Fund Group and New York Life Insurance.

**Our Business Strategy**

Our strategic objective is to capitalise on the growth opportunities that we believe are available in the Indian telecommunications market and consolidate our position to be an integrated telecommunications services provider in key markets in India, with a focus on providing cellular services. We have developed the following strategies to achieve our strategic objective:

- Focus on maximising revenues and margins;
- Capture maximum telecommunications revenue potential with minimum geographical coverage;
- Offer multiple telecommunications services to provide customers with a "one-stop shop" solution;
- Position ourselves to tap data transmission opportunities and offer advanced mobile data services;
- Focus on satisfying and retaining our customers by ensuring high level of customer satisfaction;
- Leverage strengths of our strategic and financial partners; and
- Emphasise on human resource development to achieve operational efficiencies.

**Our Competitive Strengths**

We believe that the following elements will contribute to our success as an integrated telecommunication services provider in India and may provide us with a solid foundation to execute business strategy:

- Nationwide Footprint - As of November 30, 2001, approximately 92% of India's total cellular subscribers resided in our six existing and nine proposed cellular circles. These 15 circles collectively accounted for approximately 56% of India's land mass;
- Focus on telecommunications to enable us to anticipate industry trends and capitalise on new telecommunications-related business opportunities;
- We believe that we enjoy strong brand name recognition and have a reputation for offering high quality service to our customers;
- Quality management team with vision and proven execution skills; and
- Our strong relationships with international strategic and financial investors such as SingTel, Warburg Pincus, International Finance Corporation, Asian Infrastructure Fund Group and New York Life Insurance.

## THE OFFERING

**Equity shares offered:**

| | |
|---|---|
| Offering Size | 185,336,700 Equity Shares |
| **of which:** | |
| QIB Portion | 111,202,020 Equity Shares (allocation on a discretionary basis) |
| Non-Institutional Portion | 27,800,505 Equity Shares (allocation on a proportionate basis) |
| Retail Portion | 46,334,175 Equity Shares (allocation on a proportionate basis) |
| **Equity shares outstanding after this Offering** | 1,853,366,767 Equity Shares |
| **Use of proceeds** | The net proceeds from the Offering will be used for funding investment in our cellular, fixed-line and national long distance businesses, repayment of borrowing, making acquisitions of minority stakes in our subsidiaries and general corporate purposes including investing in our broadband business. For further details, see "Objects of Offering". |

After this offering, 1,853,366,767 equity shares would be outstanding which is based on 1,668,030,067 equity shares issued and outstanding as at December 31, 2001.

**Corporate Information**

Bharti Tele-Ventures was incorporated on July 7, 1995 as a public limited company under the Companies Act. The Company obtained certificate of commencement of business on January 18, 1996. Our principal corporate and registered office is located at Qutab Ambience, H-5/12, Mehrauli Road, New Delhi 110 030, India. Our telephone number is +91-11-664-1321 and our fax number is +91-11-664-1327.

## SUMMARY CONSOLIDATED FINANCIAL, OPERATING AND OTHER DATA

You should read the following summary consolidated financial data presented in accordance with IAS in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this red herring prospectus. Our consolidated financial statements have been prepared in Indian Rupees and have been presented in accordance with IAS for the financial years ended March 31, 1999, 2000, 2001 and the six months ended September 30, 2001. The consolidated financial statements of the Company and its subsidiaries prepared, in accordance with IAS, for the years ended March 31, 2001, 2000 and 1999 have been audited by Arthur Andersen & Associates. The financial data as of September 30, 2001 and for the six-month period then ended, prepared in accordance with IAS, has been extracted from the unaudited consolidated financial statements of the Company prepared in accordance with International Accounting Standards and reviewed by Arthur Andersen & Associates in accordance with the International Standards on Auditing ('ISA – 910').

In May 2001, we acquired 85 per cent of the equity share capital of Bharti Telespatial from Bharti Telecom and consequently, an indirect interest in the subsidiaries of Bharti Telespatial. As we and Bharti Telespatial are under the common control of Bharti Telecom, this re-organisation has been accounted for on the 'Uniting of Interest' method and the effect of this re-organisation has been reflected in all the periods presented in these financial statements. Further, the assets, liabilities, revenues and expenses of Bharti Telespatial have been included in the respective line items for the financial years 1999, 2000 and 2001 and to this extent, the financial statements of these periods have been restated.

Solely for your convenience, the consolidated financial statements for the financial years ended March 31, 2001 and the six months ended September 30, 2001 have been translated into U.S. dollars at the noon buying rate on September 28, 2001, which was Rs.47.90 per US$1.00. For further details, see "Currency of Presentation".

In accordance with SEBI requirements, we have also included in this red herring prospectus, the restated financial statements of Bharti Tele-Ventures and its subsidiaries presented in Indian Rupees and presented in accordance with Indian Accounting Standards for the financial years ended March 31, 1997, 1998, 1999, 2000, 2001 and the six months ended September 30, 2001. For the aforesaid periods, there is no requirement under Indian Accounting Standards to consolidate the results of operations of our subsidiary companies in Bharti Tele-Ventures' financial statements. Accordingly, our financial statements prepared in accordance with Indian Accounting Standards are not consolidated and are, therefore, not comparable with those prepared in accordance with IAS. For further details, see "Significant Differences between IAS, Indian Accounting Standards and US GAAP".

The Institute of Chartered Accountants of India has issued a new accounting standard, accounting standard number 21, on consolidation of financial statements. This accounting standard will apply to all financial statements prepared in accordance with Indian Accounting Standards for periods commencing on or after April 1, 2001. Our financial statements consolidated in accordance with IAS may differ from those consolidated under the Indian Accounting Standards.

The selected consolidated historical financial and other data includes a presentation of adjusted EBITDA. Adjusted EBITDA represents earnings (loss) before depreciation, pre-operating costs, amortization, interest and taxation. In calculating adjusted EBITDA, we have not considered expenses incurred on the new cellular or fixed-line circles currently being developed by us, since we believe, that if such costs are included, it would not accurately represent our operational performance in the existing circles. Adjusted EBITDA is presented because we believe some investors find it to be a useful tool for measuring a company's ability to fund capital expenditures or to service future debts. Adjusted EBITDA is not a standard term in accordance with IAS or Indian Accounting Standards and should not be considered in isolation or as an alternative to net income, as an indicator of operating performance or as an alternative to cash flow as a measure of liquidity. Because adjusted EBITDA considers earnings before interest expense, negative adjusted EBITDA would limit our ability to fund capital expenditures and service future debt obligations.

For our cellular segment and for our consolidated results, we have computed adjusted EBITDA margins on proforma revenue and total revenue basis. Proforma revenues are service revenues less access and interconnection costs incurred for our cellular business and are un-audited. Service revenues exclude revenues from equipment sales. We believe that proforma revenues, calculated in this manner, are more representative of our revenue stream for the cellular business, as access and interconnection costs, which we collect from our customers for interconnecting with the fixed-line network are passed on to BSNL or MTNL, in accordance with our interconnection arrangements. Until January 25, 2001, we passed on the entire charges collected from our customers, while subsequently, we have been passing on 95% of call charges collected from our customers, in accordance with the notification issued by the DoT. Any change in our interconnection arrangements regarding sharing of revenues from calls will have an impact on the proforma revenues, and may result in us calculating adjusted EBITDA margins only on the basis of total revenues, which includes access charges and revenue from equipment sales, if any. Other companies may calculate adjusted EBITDA or adjusted EBITDA margin in a manner different than ours.

In this red herring prospectus, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding off.

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six months ended Sep. 30, 2001 | Year ended Mar. 31, 2001 | Six months ended Sep. 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | (Restated) | (Unaudited) |
| | (in millions, except ratios and per share data) | | | | | |
| ***Consolidated income statement data*** | | | | | | |
| Revenue | | | | | | |
| Cellular | Rs.2,195 | Rs.3,837 | Rs.7,370 | Rs.5,302 | $154 | $111 |
| Fixed-line | 97 | 506 | 1,092 | 755 | 23 | 16 |
| Broadband | — | — | — | 171 | — | 4 |
| Equipment Sale | 157 | 138 | 20 | 19 | — | 1 |
| Total Revenue | 2,449 | 4,481 | 8,481 | 6,248 | 177 | 131 |
| YoY (%) | - | 83% | 89% | | | |
| Proforma revenue[1] | 1,891 | 3,681 | 7,232 | 5,240 | 151 | 109 |
| YoY (%) | - | 95% | 96% | | | |
| Total operating expenses excluding license fees and pre-operating costs | 1,711 | 2,808 | 5,634 | 3,891 | 118 | 81 |
| License fees | 703 | 817 | 917 | 681 | 19 | 14 |
| Adjusted EBITDA | 35 | 856 | 1,930 | 1,676 | 40 | 35 |
| YoY (%) | - | 2,346% | 125% | | | |
| Earnings (loss) before taxation | (562) | (797) | (1,102) | 181 | (23) | 4 |
| Income-tax income (expense) | 105 | 80 | 46 | (156) | 1 | (3) |
| Net profit (loss) | (322) | (550) | (1,208) | (158) | (25.0) | (3) |
| **Ratios and other financial data:** | | | | | | |
| Adjusted EBITDA margin on proforma revenue (%)[1] | 1.9% | 23.3% | 26.7% | 32.0% | 26.7% | 32.0% |
| Adjusted EBITDA margin on total revenue (%) | 1.4% | 19.1% | 22.8% | 26.8% | 22.8% | 26.8% |
| Net profit (loss) per common share | (0.21) | (0.35) | (0.74) | (0.10) | (0.016) | (0.002) |

(1) Proforma revenues are calculated as service revenues less access and interconnection costs incurred for our cellular business and are un-audited. Service revenues exclude revenues from equipment sales. We believe that proforma revenues, calculated in this manner, are more representative of our revenue stream for the cellular business, as a significant part of the access and interconnection costs, which we collect from our customers for interconnecting with fixed-line network are passed on to BSNL or MTNL, in accordance with our interconnection arrangements. Until January 25, 2001, we passed on the entire charges collected from our customers, while subsequently, we have been passing on 95% of call charges collected from our customers, in accordance with a notification issued by the DoT. Any change in the interconnection arrangements regarding sharing of revenues from calls will have an impact on the proforma revenues and may result in us calculating adjusted EBITDA margins only on the basis of total revenues, which includes access charges and revenue from equipment sales, if any.

| | For the financial year ended March 31, 2000 | For the financial year ended March 31, 2001 | Six months ended September 30, 2001 | Six months ended September 30, 2001 |
|---|---|---|---|---|
| ***Consolidated balance sheet data*** | (in millions) | | | |
| | (Restated) | | (Unaudited) | |
| Current assets | Rs.3,945 | Rs.7,967 | Rs 9,289 | $194 |
| Net property, plant and equipment (incl. capital work-in-progress) | 8,189 | 13,493 | 19,244 | 402 |
| Goodwill | 3,725 | 12,014 | 26,041 | 544 |
| Total assets | 16,764 | 35,642 | 63,641 | 1,329 |
| *Represented by* | | | | |
| Long-term debt, net of current portion | 7,119 | 7,210 | 9,893 | 207 |
| Short-term borrowings | 1,229 | 1,007 | 3,130 | 65 |
| Total shareholders' equity | 4,222 | 18,955 | 41,540 | 867 |

| | For the financial year ended Mar. 31, 1999 | For the financial year ended Mar. 31, 2000 | For the financial year ended Mar. 31, 2001 | Six months ended Sep. 30, 2001 | For the financial year ended Mar. 31, 2001 | Six months ended Sep. 30, 2001 |
|---|---|---|---|---|---|---|
| ***Consolidated cash flow data*** | | | | (in millions) | | |
| Net cash provided / (used) by/ in operating activities | Rs.1,059 | Rs.(1,905) | Rs.1,190 | Rs.(4,116) | $25 | $(86) |
| Net cash provided / (used) by/ in investing activities | (3,656) | (3,599) | (10,866) | (20,455) | (227) | (427) |
| Net cash provided/ (used) by/ in financing activities | 2,594 | 5,528 | 9,860 | 24,823 | 206 | 518 |
| Net increase/ (decrease) in cash and cash equivalents | (4) | 24 | 184 | 252 | 4 | 5 |

bharti

## SUMMARY OPERATING AND OTHER DATA

| | As at and for the year ended March 31, | | | As at and for the eight months ended |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | November 30, 2001 |
| **Indian Demographic and Economic Data** | | | | |
| Area (in square kilometers, in thousands)(1) | 3,278 | 3,278 | 3,278 | 3,278 |
| Population (in millions)(1) | N.A.* | N.A.* | 1,027 | 1,027 |
| Real GDP growth (%)(2) | 6.6 | 6.4 | 6.0(4) | N.A.* |
| GDP per capita (in Rs.) (3) | 18,078 | 19,748 | 21,648 | N.A.* |
| Combined population of our cellular service areas(1) | N.A.* | N.A.* | 154 | 594 |
| Combined population of our fixed-line service areas(1) | N.A.* | N.A.* | 81 | 232 |
| **Indian Telecommunications Market Data** | | | | |
| Cellular subscribers (in millions) (5) | 1.2 | 1.9 | 3.6 | 5.2 |
| Fixed-line subscribers (in millions) (6) | 21.6 | 26.5 | 32.4 | N.A. |
| **Our Cellular Operating Data** | | | | |
| Number of cellular circles | 2 | 4 | 5 | 15 |
| Our cellular customers(5) | 121,848 | 282,918 | 595,128 | 1,048,000 |
| Our total estimated market share in all our service areas(5) | 55.6% | 49.6% | 53.1% | 53.4% |
| Average monthly churn rate (%)(7) | 3.8% | 3.5% | 4.7% | 5.7% |
| Average minutes of use per customer per month (8) | 91 | 172 | 217 | 202 |
| Average revenue per customer per month (9) | 1,330 | 1,335 | 1,249 | N.A.* |
| **Our Fixed-line Operating Data** | | | | |
| Our fixed-line customers | 12,223 | 66,661 | 107,086 | 134,958 |
| Our total estimated market share in all our service areas(6) | 1.3% | 5.7% | 7.8% | 8.8% (12 |
| Average monthly churn rate (%)(7) | 0.8% | 1.2% | 2.5% | 1.9% |
| Average pulse per customer per month(10) | 1,348 | 914 | 881 | 915 |
| Average revenue per customer per month(11) | 1,587 | 1,070 | 1,048 | N.A.* |

* N.A. - Not Available

(1) Population estimates as per National Census, 2001 and are as of March 1, 2001.

(2) Economic Survey, conducted by the Government of India annually.

(3) Based on the data released by Centre for Monitoring Indian Economy or CMIE.

(4) Advance estimates, as provided in the Economic Survey 2000-01, published by the Government of India.

(5) Based on the data released by the COAI.

(6) Based on the data from the annual reports of BSNL.

(7) Average monthly churn rate for a period is the rate of customer disconnections net of reconnections. This rate is calculated by dividing deactivations less reconnections by the average number of customers during that period (the average of the number of customers on the first and last days of the respective period) divided by the number of months in that period for our customers. This information does not include churn for our customers in the Himachal Pradesh and Kolkata circles.

(8) Average minutes of usage per customer per month is calculated by:

(i) dividing the total minutes of usage for the period in our cellular networks less total roaming minutes by the number of months in that period; and

(ii) dividing the result by the average number of customers in our cellular networks at the beginning and end of the period.

This information does not include average minutes of usage per customer per month for our customers in the Kolkata circle.

(9) Average revenue per customer per month is calculated by taking the total cellular revenues reduced by access and interconnection costs and dividing it by the average number of customers during the period (calculated as the average of the sum of the customers at the beginning of the period and at the end of the period). The result so obtained is divided by the number of months in that period to arrive at the average revenue per customer per month.

Average revenue per customer per month for March 31, 2001 does not include average revenue per customer per month for Chennai, as revenues for the Chennai cellular circle have not been consolidated as per IAS.

(10) Average pulse per customer per month is calculated by:

(i) dividing the total pulses of usage for the period in our fixed-line networks by the number of months in that period; and

(ii) dividing the result by the average number of customers in our fixed-line networks at the beginning and end of the period.

(11) Average revenue per customer per month is calculated by taking the total fixed-line revenues and dividing it by the average number of customers during the period (calculated as the average of the sum of the customers at the beginning of the period and at the end of the period). The result so obtained is divided by the number of months in that period to arrive at the average revenue per customer per month.

## GENERAL INFORMATION

**Authority for the Issue**

This Issue has been authorised by a special resolution passed pursuant to Section 81(1A) of the Companies Act, at the annual general meeting of the shareholders of the Company held on September 25, 2001, and a resolution passed by the Board at its meeting held on September 21, 2001.

**Confirmation of no initial public offering in any of the operating companies in the next two years**

Pursuant to a resolution passed by the Board at its meeting held on September 21, 2001, Bharti Tele-Ventures has undertaken that, for a period of two years from the Issue Closing Date, it shall not vote on any resolution proposed by any existing or future company controlled by it, or take any other action which will result in the listing of any such company controlled by it. However, this undertaking will not apply to Bharti Mobile, as the terms of the Bharti Mobile joint venture agreement dated February 12, 1997 provides that the shareholders, SC Cellular and Telia, may insist by a notice to the other shareholder to list its shares on a stock exchange, unless otherwise agreed upon by the shareholders, within six months of such notice. Also, this undertaking will not apply to any company controlled by Bharti Tele-Ventures whose assets and operations are not related or connected to the telecommunications service business.

**Prohibition by SEBI**

Bharti Tele-Ventures, its directors, its promoter Bharti Telecom or any of the companies promoted by the promoter have not been prohibited from accessing the capital markets under any order or direction passed by SEBI.

**Eligibility of the company to enter the capital markets**

Bharti Tele-Ventures meets the track record criteria specified in clause 2.2.1 of the SEBI Guidelines since, as per Indian Accounting Standards, it has:

- a pre-issue net worth of not less than Rs. 10 million in the immediately preceding two years and in a total of three years out of last five years;
- a track record of distributable profits in terms of Section 205 of the Companies Act for at least three out of the last five years; and
- the proposed issue size would not exceed five times the pre-issue networth.

Since Bharti Tele-Ventures, on a consolidated basis under IAS accounting standards does not meet the track record criteria specified above, it is offering equity shares through the Book Building route in accordance with clause 2.2.2 of the SEBI Guidelines, wherein a minimum of 60% would be allotted to QIBs, failing which the full subscription monies shall be refunded.

In addition, Bharti Tele-Ventures is proposing to make an Issue of 10% of its post-Issue capital through a 100% Book Building Process, wherein an allocation of 60% of the Issue would be made to the QIBs, in accordance with Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957.

**Disclaimer Clause:**

**As required, a copy of the red herring prospectus has been submitted to SEBI. It is to be distinctly understood that submission of the red herring prospectus to SEBI should not, in any way, be deemed or construed that the same has been cleared or approved by SEBI. SEBI does not take any responsibility either for the financial soundness of any scheme or the project for which the Issue is proposed to be made or for the correctness of the statements made or opinions expressed in the red herring prospectus. The Book Running Lead Managers, JM Morgan Stanley Private Limited and DSP Merrill Lynch Limited, have certified that the disclosures made in the red herring prospectus are generally adequate and are in conformity with the SEBI Guidelines for Disclosures and Investor Protection as for the time being in force. This requirement is to facilitate investors to take an informed decision for making an investment in the proposed Issue. It should also be clearly understood that while the Company is primarily responsible for the correctness, adequacy and disclosure of all relevant information in the red herring prospectus, the Book Running Lead Managers are expected to exercise due diligence to ensure that the Company discharges its responsibility adequately in this behalf and towards this purpose, the Book Running Lead Managers, JM Morgan Stanley Private Limited and DSP Merrill Lynch Limited, have furnished to SEBI, their due diligence certificates dated November 12, 2001 and January 11, 2002 in accordance with the SEBI (Merchant Bankers) Regulations, 1992 which reads as follows:**

**(1) We have examined various documents including those relating to litigation like commercial disputes, patent disputes, disputes with collaborators etc. and other materials in connection with the finalisation of the red herring prospectus pertaining to the Issue.**

**(2) On the basis of such examination and the discussions with the Company, its directors and other officers, other agencies, independent verification of the statements concerning the objects of the Issue, projected profitability, price justification and the contents of the documents mentioned in the annexure and other papers furnished by the Company.**

**WE CONFIRM that:**

- **The red herring prospectus forwarded to SEBI is in conformity with the documents, materials and papers relevant to the Issue;**
- **All the legal requirements connected with the Issue as also the guidelines, instructions, etc., issued by SEBI, the government and any other competent authority in this behalf have been duly complied with; and**
- **The disclosures made in the red herring prospectus are true, fair and adequate to enable the investors to make a well informed decision as to the investment in the proposed Issue.**

**(3) We confirm that besides ourselves, all the intermediaries named in the red herring prospectus are registered with SEBI and that till date such registrations are valid.**

**(4) When underwritten, we shall satisfy ourselves about the worth of the underwriters to fulfil their underwriting commitments.**

All legal requirements pertaining to the Issue have been complied with at the time of filing of the red herring prospectus with the RoC in terms of Section 60B of the Companies Act. All legal requirements pertaining to the issue will be complied with at the time of registration of Prospectus with the RoC in terms of Section 56, Section 60 and Section 60B of the Companies Act, 1956.

The filing of this red herring prospectus and Prospectus does not, however, absolve the Company from any liabilities under Section 63 and Section 68 of the Companies Act or from the requirement of obtaining such statutory and other clearances as may be required for the purpose of the proposed Issue. SEBI further reserves the right to take up at any point of time, with the BRLMs, any irregularities or lapses in the red herring prospectus and Prospectus.

**Caution**

The Company, the BRLMs accept no responsibility for statements made otherwise than in the red herring prospectus, Prospectus or the advertisements or any other material issued by or at the instance of the Company and anyone placing reliance on any other source of information would be doing so at his or her own risk.

Neither of the BRLMs accept any responsibility, save to the limited extent as provided in terms of the Memorandum of Understanding entered into by the Company and itself and the Underwriting Agreement entered into by the Company, the BRLMs and the Syndicate Members.

**Disclaimer in respect of Jurisdiction**

This offer is being made in India to persons resident in India (including Indian nationals resident in India who are majors, HUFs, companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, Indian mutual funds registered with SEBI, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), Trusts registered under the Societies Registration Act, 1860, as amended, or under any other Trust law and who are authorised under their constitution to hold and invest in shares) and to NRIs, OCBs and FIIs. This red herring prospectus and/or Prospectus does not, however, constitute an offer to sell or an invitation to subscribe to shares issued hereby in any other jurisdiction to any person to whom it is unlawful to make an offer or invitation in such jurisdiction. Any person into whose possession this red herring prospectus and/or Prospectus comes is required to inform himself about and to observe any such restrictions. Any dispute arising out of this Issue will be subject to the jurisdiction of the appropriate court(s) of New Delhi only.

No action has been or will be taken to permit a public issue in any jurisdiction where action would be required for that purpose, except that this red herring prospectus and Prospectus have been submitted to the SEBI. Accordingly, the equity shares, represented thereby may not be offered or sold, directly or indirectly, and this red herring prospectus and/or Prospectus may not be distributed, in any jurisdiction, except in accordance with the legal requirements applicable in such jurisdiction. Neither the delivery of this red herring prospectus and/or Prospectus nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Bharti Tele-Ventures or its subsidiaries since the date hereof or that the information contained herein is correct as of any time subsequent to this date.

**Distribution of Information to Investors**

All information shall be made available by the BRLMs/Syndicate Members and the Company to the public and investors at large and no selective or additional information would be available to section of investors in any manner whatsoever.

**Disclaimer Clause of the Delhi Stock Exchange**

The Delhi Stock Exchange, or the DSE, has pursuant to its letter dated November 27, 2001, given its permission to the Company to use DSE's name in this red herring prospectus as one of the stock exchanges on which the Company's equity shares are proposed to be listed. DSE has taken on record this red herring prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company based on the assurances, averments, statements and other managerial, administrative, technical and financial information duly seen and examined by the BRLMs, the Lead Manager, advisors, directors and managers of the Company. DSE does not in any manner:

(a) warrant, certify or endorse the correctness or completeness of any of the contents of this red herring prospectus; or

(b) warrant that the Company's equity shares will be listed or will continue to be listed on DSE; or

(c) take any responsibility for the financial or other soundness of the Company, its promoters, its management or any scheme or project of the Company.

It should not for any reason be deemed or construed that this red herring prospectus has been cleared or approved by the DSE. Every person who would like to apply for or otherwise acquires any equity shares of the Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against DSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription or acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

**Disclaimer Clause of The Stock Exchange, Mumbai**

The Stock Exchange, Mumbai, or the BSE, has pursuant to its letter dated November 28, 2001, given its permission to the Company to use BSE's name in this red herring prospectus as one of the Stock Exchanges on which the Company's equity shares, are proposed to be listed. BSE has scrutinised this red herring prospectus for their limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company. BSE does not in any manner:

(a) warrant, certify or endorse the correctness or completeness of any of the contents of this red herring prospectus; or

(b) warrant that the Company's equity shares will be listed or will continue to be listed on BSE; or

(c) take any responsibility for the financial or other soundness of the Company, its promoters, its management or any scheme or project of the Company.

It should not, for any reason be deemed or construed that this red herring prospectus has been cleared or approved by the BSE. Every person who desires to apply for or otherwise acquires any equity shares of the Company may do so pursuant to independent inquiry, investigation and analysis and shall not have any claim against BSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription or acquisition whether by reason of anything stated or omitted to be stated herein or for any other reason whatsoever.

**Disclaimer Clause of the National Stock Exchange of India Limited**

As required, a copy of this red herring prospectus has been submitted to National Stock Exchange of India Limited, or NSE. NSE has pursuant to its letter dated December 18, 2001, given its permission to the Company to use NSE's name in this red herring prospectus as one of the Stock Exchanges on which the Company's equity shares are proposed to be listed. NSE has scrutinised this red herring prospectus for its limited internal purpose of deciding on the matter of granting the aforesaid permission to the Company. It is to be distinctly understood that the aforesaid permission given by NSE, should not in any way be deemed or construed that the red herring prospectus has been cleared or approved by NSE. NSE does not in any manner:

(a) warrant, certify or endorse the correctness or completeness of any of the contents of this red herring prospectus; or

(b) nor does it warrant that the Company's equity shares will be listed or continue to be listed on NSE; or

(c) nor does it take responsibility for the financial or other soundness of the Company, its promoters, its management or any scheme or project of the Company.

Every person who would like to apply for or otherwise acquire any equity shares of the Company may do so pursuant to an independent inquiry, investigation and analysis and shall not have any claim against NSE whatsoever by reason of any loss which may be suffered by such person consequent to or in connection with such subscription or acquisition whether by reason of anything stated or omitted to be stated herein or any other reason whatsoever.

**Filing**

A copy of the red herring prospectus along with the documents required to be filed under Section 60B of the Companies Act have been delivered to the RoC and a copy of the Prospectus to be filed under Section 60 of the Companies Act would be delivered for registration to RoC. A copy of the red herring prospectus has been filed with SEBI at Ground Floor, Mittal Court, "A" Wing, Nariman Point, Mumbai 400 021.

**Listing**

Listing applications would be made to Delhi Stock Exchange Association Limited (Regional Stock Exchange), The Stock Exchange, Mumbai and The National Stock Exchange of India Limited (hereinafter referred to as "Stock Exchanges") for permission to deal in and for an official quotation of the equity shares of the Company.

If the permissions to deal in and for an official quotation of the equity shares of the Company are not granted by any of the Stock Exchanges as mentioned above, the Company shall forthwith repay, without interest, all moneys received from the applicants in pursuance of the red herring prospectus or Prospectus. If such money is not repaid within eight days after the Company becomes liable to repay it (i.e. from the date of refusal or within 70 days from the date of closing of the subscription list, whichever is earlier), then the Company and every director of the Company who is an officer in default shall, on and from expiry of such eight days, be jointly and severally liable to repay the money, with interest at the rate of 15% per annum on application money, as prescribed under Section 73 of the Companies Act.

**Impersonation**

**Attention of the applicants is specifically drawn to the provisions of sub-section (1) of Section 68A of the Companies Act, which is reproduced below:**

***"Any person who:***

***(a) makes in a fictitious name, an application to a company for acquiring or subscribing for, any shares therein, or***

***(b) otherwise induces a company to allot, or register any transfer of shares therein to him, or any other person in a fictitious name, shall be punishable with imprisonment for a term which may extend to five years."***

**Minimum Subscription**

If the Company does not receive the minimum subscription of 90% of the Issue amount including devolvement of Syndicate Members, if any, within 60 days from the Bid Closing Date or if the subscription level falls below 90% after the bid closing date on account of cheques having been returned unpaid or withdrawal of applications, the Company shall forthwith refund the entire subscription amount received. If there is delay beyond 78 days from Bid Closing Date in refund of such subscription, the Company shall pay interest @15% per annum. If there is any delay in refund of amount collected, the Company and its Directors shall be jointly and severally liable to repay the amount due by way of refund with interest @15% per annum for the delayed period beyond 78 days from the Bid Closing Date.

**Letters of Allotment or Refund Orders**

The Company shall dispatch allotment advice, refund orders or cancelled Stockinvest and give benefit to the Beneficiary Account with Depository Participants and submit the allotment and listing documents to the Stock Exchanges within two working days of finalisation of the basis of allotment. The Company shall dispatch refund orders, if any, of value up to Rs.1,500, by "Under Certificate of Posting", and shall dispatch refund orders above Rs.1,500, if any, by Registered Post or Speed Post at the sole or first applicant's sole risk.

The BRLMs shall ensure that all steps for completion of the necessary formalities for listing and commencement of trading at all the stock exchanges where the equity shares are proposed to be listed, are taken within seven working days of finalisation of the basis of allotment.

In accordance with the Companies Act, the Stock Exchanges' requirements and SEBI Guidelines, the Company further undertakes that:

- Allotment of equity shares shall be made within 15 days from the Bid Closing Date;
- It would despatch refund orders / cancelled Stockinvests within 15 days from the Bid Closing Date; and
- It shall pay interest at 15% per annum (for any delay beyond the periods as mentioned above), if allotment has not been made, refund orders/cancelled Stockinvests have not been dispatched and/or demat credits have not been made to investors within the time periods prescribed above.

| ISSUE PROGRAMME | | | |
|---|---|---|---|
| BID / ISSUE OPENS ON | : | MONDAY, | JANUARY 28, 2002 |
| BID / ISSUE CLOSES ON | : | SATURDAY, | FEBRUARY 2, 2002 |

The Company will provide adequate funds required for the despatch of refund orders or allotment advice to the Registrar to the Issue.

Bids and any revision in Bids shall be accepted **only between 10 a.m. and 3 p.m.** (India Time) during the Bidding Period as mentioned above at the bidding centres mentioned on the Bid-cum-Application Form except that on the Bid Closing Date, the Bids shall be accepted **only between 10 a.m. and 12 noon** (India Time).

**Book Running Lead Manager to the Issue**
**JM Morgan Stanley Private Limited**
141, Maker Chambers III,
Nariman Point, Mumbai 400 021.
Tel. No.: (91 22) 230 3030/ 283 1237
Fax No.: (91 22) 204 2137/ 230 1694

**DSP Merrill Lynch Limited**
Mafatlal Centre, 10th Floor
Nariman Point, Mumbai 400 021.
Tel. No.: (91 22) 232 8000
Fax No.: (91 22) 232 8079

**Lead Manager to the Issue**
**ABN AMRO Securities (India) Private Limited**
102, Dalamal House,
Nariman Point, Mumbai 400 021.
Tel. No.: (91 22) 281 2168
Fax No.: (91 22) 281 2172

**ICICI Securities and Finance Company Limited**
41 / 44, Minoo Desai Marg,
Colaba, Mumbai 400 005
Tel. No.: (91 22) 288 2460
Fax No.: (91 22) 283 7045

**Syndicate Member to the Issue**
**Enam Financial Consultants Private Limited**
801/ 802, Dalamal Towers,
Nariman Point, Mumbai 400 021.
Tel. No.: (91 22) 282 8554
Fax No.: (91 22) 284 6824

## STATEMENT OF INTER-SE ALLOCATION OF RESPONSIBILITIES

### Initial Public Offering of Bharti Tele-Ventures Limited

**Book Running Lead Managers to the Issue**

JM Morgan Stanley Private Limited ('JMMS')
DSP Merrill Lynch Limited ('DSPML')

**Lead Managers to the Issue**

ABN AMRO Securities (India) Private Limited ("ABN")
ICICI Securities Limited ("I-SEC")

| Sr. No. | | Activities | Responsibility | Coordinator for SEBI |
|---|---|---|---|---|
| A) | | Capital Structure with relative components and formalities, such as, composition of debt and equity, type of instrument etc. | JMMS/DSPML | JMMS |
| B | i) | Draft and design of Offer Document and of advertisement/publicity material including newspaper advertisement and brochure/memorandum containing salient features of the Prospectus/Draft Prospectus | JMMS/DSPML | JMMS |
| | ii) | a) Due Diligence | JMMS/DSPML | |
| | | b) Completion of formalities with Stock exchanges, SEBI and Registrar of Companies | JMMS/DSPML | |
| | iii) | Selection of advertising agencies, design of statutory advertisements and press releases | JMMS/DSPML | |
| C | i) | Company Positioning | JMMS/DSPML | DSPML |
| | ii) | Pre-marketing exercise | JMMS/DSPML | DSPML |
| | iii) | Marketing of the Issue | JMMS/ DSPML/ABN/I-SEC | DSPML |
| | iv) | Formulating of marketing strategies, preparation of publicity budget, arrangements for media centres for holding conferences of brokers, investors etc. and brokers to issue | JMMS/DSPML | JMMS |
| | v) | Running the Book, co-ordinating the pricing strategy | JMMS/DSPML | JMMS |
| | vi) | Deciding the allocation, tying up the underwriting arrangement, distribution of publicity and Issue material including application form, prospectus and brochure and deciding on the quantum of Issue material | JMMS/DSPML | DSPML |
| D) | | Selection of various agencies connected with the issue such as, registrars to the Issue, printers, brokers etc. | JMMS/DSPML | JMMS |
| E) | | Selection of bankers to the issue, collection centres | JMMS/DSPML | JMMS |
| F) | | Follow up with bankers to the issue on collections and advising the issuer about closure of the issue based on correct figures | JMMS/DSPML | DSPML |
| G) | | Finalisation of basis of allotment and post-issue activities will involve submission of statutory reports, essential follow up steps including listing of equity shares and dispatch of allotment advice and refunds, coordination with various agencies connected with the work such as, registrars to the issue, bankers to the issue and the bank handling the refund business. Even if many of these activities will be handled by other intermediaries, the designated BRLMs shall be responsible for ensuring that these agencies fulfill their functions and enable to discharge this responsibility through suitable agreements with the Bharti Tele-Ventures. | JMMS/DSPML | DSPML |

The Selection of various agencies like Registrars to the Issue, Bankers to the Issue, Bank Collection Centres, Legal Advisors to the Issue, Underwriters to the Issue, Brokers, Advertising Agencies, Public Relation Agencies etc. will be finalised in consultation with the Company.

The Book Running Lead Managers are jointly and severally responsible for all the above activities.

**Registrar to the Issue**
**Karvy Consultants Limited**
'Karvy House'
46, Avenue 4, Street No.1,
Banjara Hills, Hyderabad 500 034
Tel. No.: (91 40) 331 2454
Fax No.: (91 40) 331 1968
Email: bhartitele@karvy.com

**Legal Advisors**

**To the Company**
Pathak & Associates
1st Floor, Dr. Gopal Das Bhavan,
28, Barakhamba Road,
New Delhi 110 001
Tel. No.: (91 11) 373 8793

**To the Underwriters**
Little & Co.
Central Bank Building, M.G Road,
Mumbai 400 023.
Tel. No.: (91 22) 265 2739

**Auditors**

*Indian Accounting Standards*
Price Waterhouse
PwC Centre, Saidulajab
Mehrauli Badarpur Road,
Opposite D-Block, Saket,
New Delhi 110 030
Tel. No.: (91 11) 652 3760

*International Accounting Standards*
Arthur Andersen & Associates
2nd Floor, The Capital Court,
LSC Phase III, Olof Palme Marg,
Munirka
New Delhi - 110 067.
Tel. No.: (91 11) 616 5000

**Escrow Collection Bankers / Bankers to the Issue**

**Citibank N.A.**
Plot C-61
Bandra-Kurla Complex, G-Block,
Bandra (East), Mumbai 400 051

**HDFC Bank Limited**
Sandoz House,
Dr. Annie Besant Road
Worli, Mumbai-400 018

**IDBI Bank Limited**
Chaturvedi Mansion
2nd Floor, 26/4 Old Palasia
Agra-Bombay Road
Indore-452001.

**Deutsche Bank**
Kodak House, 222 Dr D.N. Road
Fort, Mumbai 400 001.

**ICICI Bank**
Capital Markets Division
30, Mumbai Samachar Marg
Fort, Mumbai 400 001.

**ABN AMRO Bank**
DLF Centre, Sansad Marg
New Delhi - 110 001
Tel. No.: (91 11) 375 5130 / 5407
Fax No.: (91 11) 375 5401

**Compliance Officer and Company Secretary**
**Mr. Narender Gupta**
**Bharti Tele-Ventures Limited**
Qutab Ambience, H-5/12,
Mehrauli Road,
New Delhi 110 030, India
Tel. No.: (91 11) 6641321
Fax No.: (91 11) 6641327
Email: gupta_n@bhartient.com

**Investors can contact the Compliance Officer in case of any pre-Issue or post-Issue related problems such as non-receipt of allotment advice, refund orders or cancelled Stockinvests, etc.**

***Other Details***

The bidders are advised to read the red herring prospectus and the General Instructions contained in the application form carefully and to satisfy themselves before making a bid. For a copy of the red herring prospectus the bidder may request the Company, the BRLMs, Syndicate Members or Brokers to the issue. Further, bidders are advised to retain a copy of the red herring prospectus/application form for their future reference.

**Investors should note that no tax rebate would be available to investors under Section 88 of the Income-Tax Act, 1961, as Bharti Tele-Ventures is a holding company.**

**Credit Rating**

Since the present Issue is of equity shares, a credit rating is not required.

**Trustees**

Since the present Issue is of equity shares, the appointment of Trustees is not required.

**Monitoring Agency**

Infrastructure Development Finance Company Limited (IDFC) has been appointed as the Monitoring Agency by the Company.

Bharti Tele-Ventures has entered into an agreement with the Monitoring Agency dated January 9, 2002, which provides that the Monitoring

Agency shall fulfill its duties and responsibilities as may be required to be fulfilled by it in such capacity under SEBI Guidelines, which includes delivering a monitoring report to SEBI and taking such actions as may be required under the provisions of the SEBI Guidelines. Bharti Tele-Venture's obligations under this agreement include:

- furnishing to the Monitoring Agency the requisite information/documents as and when required;
- notify and inform the Monitoring Agency in writing as to the use of the proceeds of this Issue and furnish such invoices, documents, papers and other relevant information to effectively monitor the utilisation of proceeds of this Issue;
- ensure that the proceeds of this Issue are utilised only for the purposes mentioned in the red herring prospectus;
- provide all necessary assistance and infrastructure that may be required by the Monitoring Agency in connection with the performance of its duties pursuant to the SEBI Guidelines and this agreement.

This agreement shall automatically terminate upon all proceeds being utilized and deployed by the Company in accordance with the provisions of the red herring prospectus and the parties shall jointly inform SEBI of such termination.

**Book Building Process**

Book building refers to the collection of bids from investors, which is based on the Floor Price, the Issue Price being fixed after the Bid Closing Date. The principal intermediaries involved in a Book Building Process are:

- The Company;
- Book Running Lead Managers, in our case JM Morgan Stanley Private Limited and DSP Merrill Lynch Limited.

SEBI through its guidelines has permitted an issuer proposing to offer securities to the public to have an option to offer 100% of the Offer through Book-Building Process, wherein at least 60% of the Issue shall be allocated to QIBs on a discretionary basis and of the remaining balance, 15% of the Issue shall be allocated on a proportionate basis to Non-Institutional Investors and 25% of the Issue shall be allocated on a proportionate basis to Retail Investors, subject to valid bids being received at or above the Issue Price. The Company will comply with these guidelines for this Offering. In this regard, the Company has appointed JM Morgan Stanley Private Limited and DSP Merrill Lynch Limited as Book Running Lead Managers to the Issue to procure subscription to the Issue.

**The process of Book Building under SEBI guidelines is relatively new and investors are advised to make their own judgement about investment through this process prior to making a Bid or Application in the Issue.**

**Steps to be taken by the Investor for Bidding**

1. Check whether he or she is eligible for Bidding;
2. Bidder necessarily needs to have a demat account; and
3. Fill up Bid Form as per instructions given elsewhere in this red herring prospectus and the Bid Form.

**Underwriting Agreements**

After the determination of the Issue Price and prior to filing of the Prospectus with RoC, the Company would enter into Underwriting Agreements with the BRLMs and the Syndicate Members for the equity shares proposed to be offered in the Issue. It is proposed that in terms of these Underwriting Agreements, the BRLMs shall be responsible for bringing in the amount devolved in the event that the other Syndicate Members do not fulfil their underwriting obligations.

The Underwriters have indicated their intention to underwrite the following number of shares.

*(This portion has been intentionally left blank and will be filled in before filing of the Prospectus with the RoC)*

| Name and Address of the Underwriter | Indicated Number of Equity Shares to be Underwritten | Amount Underwritten (Rs. millions) |
|---|---|---|
| **JM Morgan Stanley Private Limited**<br>141, Maker Chambers III, Nariman Point, Mumbai 400 021. | 83,401,500 | |
| **DSP Merrill Lynch Limited**<br>Mafatlal Centre, 10th Floor, Nariman Point, Mumbai 400 021 | 83,401,500 | |
| **ABN AMRO Securities (India) Private Limited**<br>102, Dalamal House, Nariman Point,Mumbai 400 021. | 18,533,500 | |
| **ICICI Securities and Finance Company Limited**<br>41 /44, Minoo Desai Marg, Colaba, Mumbai 400 005 | 100 | |
| **Enam Financial Consultants Private Limited**<br>801/ 802, Dalamal Towers, Nariman Point, Mumbai 400 021. | 100 | |

The above mentioned is indicative underwriting and this would be finalised after the pricing and actual allocation.

All the above underwriting agreements are dated [•].

In the opinion of the Board of the Company (based on a certificate given to it by the BRLMs), and in the opinion of the BRLMs on the basis of the declarations given by the other Underwriters, the resources of all the above mentioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. All the above mentioned Underwriters are registered with SEBI under Section 12(1) of the SEBI Act. All the above underwriting agreements have been accepted by the Board of the Company at their meeting held on [•], 2002 and the Company has issued letters of acceptance to the Underwriters.

Allocation amongst the BRLMs or the Syndicate Members may not necessarily be in proportion to the underwriting commitments. Allocation to Bidders is discretionary as per the terms of the red herring prospectus and may not be proportionate in any way and the patterns of allocation to the Bidders could be different across the BRLMs and Syndicate Members.

# CAPITAL STRUCTURE

| SHARE CAPITAL (AS OF DECEMBER 31, 2001) | | Face Value (in Rs. millions) | Aggregate value (in Rs. millions) |
|---|---|---|---|
| **A. Authorised Capital**[(1)] | | | |
| 2,500,000,000 | Equity shares of Rs.10 each | 25,000.00 | – |
| **B. Issued, Subscribed and Paid-Up Capital before the Issue** | | | |
| 1,668,030,067 | Equity shares of Rs.10 each fully paid-up | 16,680.30 | – |
| **C. Present Issue to the Public in terms of this Red Herring Prospectus** | | | |
| 185,336,700 | Equity shares of Rs.10 each for cash at a premium of Rs.[•] per share | 1,853.37 | [•] |
| **D. Issued, Subscribed and Paid-up Capital after the Issue** [(2)] | | | |
| 1,853,366,767 | Equity shares of Rs.10 each | 18,533.67 | |
| **E. Share Premium Account** [(3)] | | | |
| | Before the Issue | 23,602.00 | |
| | After the Issue | [•] | |

(1) The authorised capital of the Company was increased from 1,500,000,000 equity shares of Rs.10 each aggregating Rs.15 billion to 2,500,000,000 equity shares of Rs.10 each aggregating Rs.25 billion, through a special resolution passed by the shareholders of the Company on September 25, 2001.

(2) Includes the equity shares offered in the present Issue through 100% Book Building Process.

(3) The addition to share premium account as a result of the Issue and the balance in the share premium account after the Issue can be determined only after the Issue Price is known after completion of the Book Building Process.

**Notes to the Capital Structure:**

**1. Share Capital History of Bharti Tele-Ventures:**

| Sr. No. | Date of Allotment | Number of Equity Shares | Cumulative Number of Equity Shares | Face Value (Rs.) | Issue Price (Rs.) | Nature of Payment | Cumulative Share Premium (Rs.) |
|---|---|---|---|---|---|---|---|
| 1 | July 7, 1995 | 7 | 7 | 10 | 10 | Cash | - |
| 2 | December 27, 1995 | 793 | 800 | 10 | 10 | Cash | - |
| 3 | April 3, 1996 | 200[(1)] | 1,000 | 10 | 9,843,472 | Cash | 1,968,692,446 |
| 4 | February 24, 1997 | 49,999,000[(2)] | 50,000,000 | 10 | - | Bonus | 1,468,702,446 |
| 5 | September 20, 1999 | 2,777,778 | 52,777,778 | 10 | 216 | Cash | 2,040,292,453 |
| 6 | December 31, 1999 | 9,722,222 | 62,500,000 | 10 | 215 | Cash | 4,035,432,445 |
| 7 | March 30, 2000 | 3,125,022 | 65,625,022 | 10 | 216 | Cash | 4,678,105,445 |
| 8 | August 30, 2000 | 20,050,000 | 85,675,022 | 10 | 55 | Cash | 5,577,605,445 |
| 9 | December 5, 2000 | 6,174,000 | 91,849,022 | 10 | 27 | Cash | 5,684,925,445 |
| 10 | December 5, 2000 | 14,120,294 | 105,969,316 | 10 | 670 | Cash | 15,004,319,485 |
| 11 | March 20, 2001 | 265,744 | 106,235,060 | 10 | 15 | Cash | 15,005,686,735 |
| 12 | April 20, 2001 | 934,256 | 107,169,316 | 10 | 492 | Cash | 15,456,344,175 |
| 13 | May 1, 2001 | 2,670,684 | 109,840,000 | 10 | 107 | Cash | 15,715,937,335 |
| 14 | June 30, 2001 | 21,159,165 | 130,999,165 | 10 | 564 | Cash | 27,443,567,320 |
| 15 | August 16, 2001 | 18,333,332 | 149,332,497 | 10 | 565 | Cash | 37,624,414,745 |
| 16 | August 28, 2001 | 616,600 | 149,949,097 | 10 | 565 | Cash | 37,966,714,069 |
| 17 | August 31, 2001 | 1,360,000 | 151,309,097 | 10 | 565 | Cash | 38,721,514,069 |
| 18 | September 28, 2001 | 80,000 | 151,389,097 | 10 | 565 | Cash | 38,765,914,069 |
| 19 | September 29, 2001 | 250,000 | 151,639,097 | 10 | 10 | Cash | 38,765,914,069 |
| 20 | September 30, 2001 | 1,516,390,970 [(2)] | 1,668,030,067 | 10 | - | Bonus | 23,602,004,369 |
| | **Total** | **1,668,030,067** | | | | | |

(1) Allotted to STET International Netherlands N.V., at the issue price per share of Rs. 9,843,472, as the then issued share capital of Bharti Tele Ventures was only Rs. 8,000. This issue price if adjusted for the bonus shares issued on February 24, 1997 and September 30, 2001, will be approximately Rs. 17.9 per equity share.

(2) Equity shares issued otherwise than for cash.

Pursuant to the resolutions passed by the members of the Company at general meetings held on January 6, 1997 and September 25, 2001, 49,999,000 and 1,516,390,970 fully paid-up equity shares, respectively, were allotted by way of bonus in the ratio of 49,999 shares for every equity share and ten shares for every equity share, respectively. The bonus shares have been issued by capitalisation of the balance in the share premium account.

2. **Promoter Holding and Lock-in :**

| Name of The Promoter | Date of Allotment | Date When Made Fully Paid-up | Consideration (Cash, bonus, kind) | No. of Equity Shares | Face Value | Issue Price | Percentage of Post-Issue Paid-up Capital | Lock-in Period |
|---|---|---|---|---|---|---|---|---|
| Bharti Telecom Limited | September 30, 2001 | September 30, 2001 | Bonus | 370,673,360 | 10 | Nil | 20% | See (a) below |

(a) In accordance with SEBI Guidelines, 20% of the post-Issue capital held by the promoter, Bharti Telecom, would be locked in for a period of three years from the date of allotment of shares in this Issue. The promoter may pledge its equity shares with banks or financial institutions as additional security for loans whenever availed by it from banks or financial institutions.

(b) Other than the above, the entire pre-issue equity share capital of Bharti Tele-Ventures would be locked in for the period of one year from the date of allotment of equity shares in this Issue. The equity shares allotted to the Bharti Tele-Ventures Employees Welfare Trust pursuant to the 'Bharti Tele-Ventures Employees Stock Option Plan' would be transferred to the respective employees as per the vesting schedule, on the date of exercise of options. Thus, there will be no lock-in applicable to the initial transfer of shares from the Bharti Tele-Ventures Employees Welfare Trust to employees. However, a lock-in of one year will be applicable to the employees who have exercised their options as per the vesting schedule and will continue until a period of one year from the date of allotment in this Issue.

3. No equity shares have been purchased or sold or financed, directly or indirectly, by Bharti Telecom, the promoter of Bharti Tele-Ventures, or any directors of Bharti Tele-Ventures or Bharti Telecom (direct allotments not included) during a period of six months preceding the date on which the red herring prospectus is filed with SEBI.

   *(to be updated by incorporating the information in this regard until the time of filing the Prospectus with the RoC)*

   Mr.Sunil Bharti Mittal, a director of Bharti Tele-Ventures and its promoter, Bharti Telecom, was on September 29 and 30, 2001 allotted 2,750,000 equity shares of Bharti Tele-Ventures.

4. The list of the top ten shareholders of Bharti Tele-Ventures and the number of equity shares held by them is as follows:

   *(to be updated by incorporating the information in this regard until the time of filing the Prospectus with the RoC)*

**Top ten shareholders on the date of filing the red herring prospectus with RoC and ten days prior to the date of filing the red herring prospectus with RoC**

| Sr.No. | Name of the Shareholders | No. of Equity Shares | |
|---|---|---|---|
| | | On the date of filing | Ten days prior to filing |
| 1 | Bharti Telecom Limited | 859,986,028 | 859,986,028 |
| 2 | Brentwood Investment Holdings Limited | 343,215,268 | 343,215,268 |
| 3 | Pastel Limited | 295,659,650 | 295,659,650 |
| 4 | Palmobile Corporation | 48,911,390 | 48,911,390 |
| 5 | Coment (Mauritius) Limited | 27,857,500 | 27,857,500 |
| 6 | International Finance Corporation | 18,333,326 | 18,333,326 |
| 7 | KMZ Investments Pvt. Limited | 16,500,000 | 16,500,000 |
| 8 | Bharti Tele-Ventures Employees' Welfare Trust | 15,840,000 | 15,840,000 |
| 9 | New York Life International India Fund | 13,860,979 | 13,860,979 |
| 10 | Russel AIF India Telecom Limited, Mauritius | 13,750,000 | 13,750,000 |

**Top ten shareholders two years prior to the date of filing the red herring prospectus with RoC**

| Sr.No. | Name of the Shareholders | No. of Equity Shares |
|---|---|---|
| 1 | Bharti Telecom Limited | 40,000,000 |
| 2 | STET International Netherlands N.V. | 10,000,000 |
| 3. | Brentwood Investment Holdings Limited | 2,777,778 |

As of the date of the red herring prospectus, there are no outstanding warrants, options or rights to convert debentures, loans or other financial instruments into equity shares of Bharti Tele-Ventures.

5. The shareholding pattern of Bharti Tele-Ventures before and after the proposed Offering is as under:

| Category | Pre-Issue Number of Equity Shares | Pre-Issue Percentage | Post-Issue Number of Equity Shares | Post-Issue Percentage |
|---|---|---|---|---|
| Promoter | 859,986,028 | 51.56 | 859,986,028 | 46.40 |
| Pastel Limited[1] | 295,659,650 | 17.73 | 295,659,650 | 15.95 |
| **Aggregate promoter group holding** | **1,155,645,678** | **69.29** | **1,155,645,678** | **62.35** |
| Brentwood Investment Holdings Limited | 343,215,268 | 20.58 | 343,215,268 | 18.52 |
| Bharti Tele-Ventures Employees Welfare Trust | 15,840,000 | 0.95 | 15,840,000 | 0.85 |
| Others | 153,329,121 | 9.18 | 153,329,121 | 8.28 |
| Public | - | - | 185,336,700 | 10.00 |
| **Total** | **1,668,030,067** | **100.00** | **1,853,366,767** | **100.00** |

(1) Pastel Limited is an investment company of SingTel. It owns 17.7% and 20% in Bharti Tele-Ventures and Bharti Telecom, respectively, prior to the Offering. Pastel Limited has subscribed and paid for US$75 million compulsorily convertible debentures of Bharti Telecom. These, subject to applicable regulations, are convertible into 1,884,896 equity shares in the issued capital of Bharti Telecom, or at the option of Pastel, into 68.75 million equity shares of Bharti Tele-Ventures held by Bharti Telecom. If the debentures are converted into shares of Bharti Telecom, Pastel Limited will own 27% shares in Bharti Telecom, which represent an effective 31.63% of the total outstanding equity shares in Bharti Tele-Ventures prior to the Offering and an effective 28.46% after the Offering. However, if Pastel Limited acquires equity shares of Bharti Tele-Ventures from Bharti Telecom, it will own an effective 31.35% of the total outstanding equity shares of Bharti Tele-Ventures prior to the Offering and an effective 28.22% after the Offering.

For further details on our capital structure, see "Our History and Corporate Structure".

6. Details of equity shares owned by the promoter, Bharti Telecom, from inception until January 21, 2002 is as under:

| Name of the Promoter | Date of Allotment/ Transfer | Consideration (Cash, bonus, kind) | Issue price/ Consideration (Rs.) | Face Value (Rs.) | Number of Equity Shares | % of Post-Issue Paid-up capital | Lock-in period |
|---|---|---|---|---|---|---|---|
| Bharti Telecom | July 7, 1995 | Subscriber to Memorandum of Association | 10 | 10 | 1 | Negligible | See note[(a)] below |
| | October 16, 1995 | Cash | 10 | 10 | 6 | Negligible | " |
| | December 27, 1995 | Cash | 10 | 10 | 793 | Negligible | " |
| | February 24, 1997 | Bonus | Nil | 10 | 39,999,200 | 2.16 | " |
| | August 30, 2000 | Cash | 55 | 10 | 20,050,000 | 1.08 | " |
| | December 5, 2000 | Cash | 670 | 10 | 8,944,120 | 0.48 | " |
| | March 20, 2001 | Cash | 15 | 10 | 265,744 | 0.02 | " |
| | May 1, 2001 | Cash | 107 | 10 | 2,670,684 | 0.14 | " |
| | August 16, 2001 | Cash | 565 | 10 | 6,250,000 | 0.34 | " |
| | September 30, 2001 | Bonus | Nil | 10 | 781,805,480 | 42.18 | See (b) below |
| | **Total** | | | | **859,986,028** | **46.40** | |

(a) Lock-in for a period of one year from the date of allotment in this Issue.

(b) Of this number, 370,673,360 equity shares out of the shares issued on September 30, 2001 constituting 20% of the post-Issue capital would be locked in for a period of three years from the date of allotment in this Issue and the balance equity shares would be locked-in for a period of one year from the date of allotment in this Issue.

7. Neither the Company, its directors, the BRLMs has entered into any buy-back and/or standby arrangements for the purchase of equity shares of the Company from any person.

8. Employee Stock Options

Pursuant to the shareholders resolutions dated February 27, 2001 and September 25, 2001 and the resolutions adopted by the Board on February 27, 2001 and September 21, 2001, the Company has introduced the “Bharti Tele-Ventures Employees Stock Option Plan” under which the Company will grant, from time to time, option(s) to the employees of Bharti Tele-Ventures and its subsidiaries, to purchase equity shares from the Bharti Tele-Ventures Employees’ Welfare Trust, or the Trust, based on performance ratings, service period and minimum employment period.

The principal terms of the ESOPs granted are as under:

| **Particulars** | **For share options aggregating Rs.768.40 million** | **For options to acquire equity shares granted to one senior managerial personnel** |
|---|---|---|
| Exercise Price | 50% of the Issue Price | Rs.10 per equity share for 80,000 equity shares (these shares are entitled to any bonuses, including 800,000 equity shares under the recent 10 : 1 bonus issue) |
| Vesting schedule | Over a period of four years | At the end of year one from the date of grant - 50,000 equity shares<br>At the end of year one from the date of grant or date of allotment in this Offering, whichever is later- 30,000 equity shares |
| Exercise Period | Within seven years from date of grant | Within 30 days from date of vesting |
| Lock-in | Nil | 2 years from the date of grant |

Under unconsolidated Indian Accounting Standards, the difference between the price at which shares have been acquired by the Trust and exercise price will be treated as an employee compensation expense and will be amortised on a straight-line basis over the vesting period from the date of grant, by Bharti Tele-Ventures with respect to its employees.

Similarly, for the employees of the subsidiaries of Bharti Tele-Ventures, the difference between the price at which shares have been acquired by the Trust and the exercise price will be accounted as an employee compensation expense and will be amortised on a straight-line basis over the vesting period from the date of grant.

Under consolidated IAS, the difference between the price at which shares have been acquired by the Trust and the exercise price will be treated as an employee compensation expense and will be amortised on a straight-line basis over the vesting period from the date of grant, in the financial statements prepared by Bharti Tele-Ventures with respect to the employees of Bharti Tele-Ventures and its subsidiaries.

All employees who have been granted options for equity shares of Bharti Tele-Ventures would also be entitled to receive additional equity shares in the proportion of the recent bonus issue. On the expiry of the exercise period, any options that have not been exercised by the employee(s) shall lapse and cease to be valid.

On August 31, 2001 and September 28, 2001, the Company issued a total of 1,440,000 equity shares at a price of Rs.565 per equity share to the Trust. The Trust has received loans from Bharti Tele-Ventures and its subsidiaries in proportion to the entitlement of the employees of each company under the scheme. An additional amount of 14,400,000 equity shares were also issued as bonus shares to the Trust on September 30, 2001.

| | | |
|---|---|---|
| (a) | options granted (as of October 31, 2001) | For an amount of Rs. 768.4 million and 880,000 equity shares |
| (b) | the pricing formula | Refer to above table |
| (c) | options vested | Nil |
| (d) | options exercised | Nil |
| (e) | the total number of equity shares arising as a result of exercise of option | Nil |
| (f) | options lapsed | Nil |
| (g) | variation of terms of options | No change |
| (h) | money realised by exercise of options | Nil |
| (i) | total number of options in force | For an amount of Rs. 768.4 million and 880,000 equity shares |
| (j) | employee-wise details of options granted to | |
| | (i) senior managerial personnel | See list below |
| | (ii) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year. | Nil |
| | (iii) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant; | Nil |
| (k) | diluted Earnings Per Share (EPS) pursuant to issue of equity shares on exercise of option calculated in accordance with International Accounting Standard (IAS) 33. | Not Applicable |

Employee-wise details of options granted to senior managerial personnel are as under:

| Name | Options granted for |
|---|---|
| Akhil Gupta | equity shares exercisable at 50% of the Issue Price representing an amount of Rs.23.39 million; also 80,000 equity shares exercisable at Rs.10 per share (these 80,000 equity shares are entitled to any bonuses, including 800,000 equity shares under the recent one for ten bonus issue) |
| Anil Nayar | equity shares exercisable at 50% of the Issue Price representing an amount of Rs. 21.93 million |
| Badri Agarwal | equity shares exercisable at 50% of the Issue Price representing an amount of Rs.13.49 million |

9. The Company has not raised any bridge loan against the proceeds of the Issue, other than a loan of Rs.2 billion entered into by Bharti Cellular with IDBI, wherein Bharti Tele-Ventures has given an undertaking that the loan would be repaid from the net proceeds of this Offering and any debt raised by Bharti Cellular before utilising the proceeds from this Offering or any such debt raised for any other purpose. For further details, see "Description of Certain Indebtedness".

10. The Company has received approval dated December 21, 2001, from the Ministry of Industry (SIA/FIPB) for issuing equity shares to non-residents of Indian nationality or origin (NRIs)/OCBs (predominantly owned by NRIs)/FIIs with repatriation benefits. The Company has also received an approval from the RBI dated January 10, 2002 in this regard. Allotment to NRIs, OCBs or FIIs would be subject to such conditions as are stipulated by FIPB/RBI in their approval letters.

    As per the FIPB approval dated December 21, 2001, the foreign share holding, including holdings of NRIs/OCBs/FIIs, in Bharti Tele-Ventures shall not exceed 49% of its paid-up capital of the Company. As of November 30, 2001, the existing foreign share holding in Bharti Tele-Ventures was approximately 46.3% of the issued capital and this will constitute approximately 41.7% of the post-Issue capital. Thus, 135,195,677 constituting approximately 73% of the present Issue is available for allocation to NRIs/OCBs/FIIs/ other foreign investors. However, as per the FIPB approval, the Company cannot allot equity shares to OCBs through an initial public offering under the portfolio investment scheme.

11. In this Issue, 60% of the Issue shall be allocated to QIBs on a discretionary basis by the Company, in consultation with the BRLMs, 15% and 25% of the Issue shall be allocated on a proportionate basis to each of the Non-Institutional Investors and Retail Investors, respectively, subject to valid bids being received from them at or above the Issue Price. Undersubscription, if any, in the non-institutional and retail categories would be allowed to be met with spill over from other categories.

12. An oversubscription to the extent of 10% of the Offer to the public can be retained for the purpose of rounding off to the nearer multiple of 100 while finalising the allotment.

13. A Bidder cannot make a Bid for more than the number of equity shares offered in this Issue, which is equal to 185,336,700 equity shares.

14. There would be no further issue of capital whether by way of issue of bonus shares, preferential allotment, rights issue or in any other manner during the period commencing from submission of the draft offer document with SEBI, on November 12, 2001 until the equity shares referred in this red herring prospectus have been listed.

15. The Company presently does not have any intention or proposal to alter its capital structure for a period of six months commencing from the date of opening of the bidding / Issue, by way of split / consolidation of the denominations of equity shares or further issue of equity shares whether preferential or otherwise.

16. The Company has not issued any equity shares out of revaluation reserves or for consideration other than cash except for the bonus shares issued out of share premium. For details, refer to Note No.1 above.

17. There will be only one denomination for the equity shares of the Company, subject to applicable regulations.

18. The Company had 13 members as of January 21, 2002.

# OBJECTS OF THE OFFERING

The net proceeds of this Offering after deducting underwriting and management fees, selling commissions and all other Offering related expenses payable by us is estimated at Rs.[●] million. We intend to expand our existing telecommunications business by developing cellular, fixed-line and national long distance networks within India. **Bharti Tele-Ventures will invest the net proceeds of the Offering in its subsidiary companies in the form of equity and debt, which in turn will be used by the subsidiaries to fund their expenditure plans.** In addition, the net proceeds will also be used to repay a bridge loan assumed by Bharti Cellular, acquire the remaining minority stakes in its subsidiaries, Bharti Mobinet and Bharti Mobile, and for other general corporate purposes.

As a result of this Offering, we also expect to provide greater liquidity to our strategic and financial shareholders and employees holding options to purchase equity shares of the Company under the Bharti Tele-Venture's Employee Stock Option Scheme.

The main objects clause and objects incidental or ancillary to the main objects clause of the Memorandum of Association of the Company enable the Company to undertake its existing activities and the activities for which the funds are being raised through this Offering.

***Funds Requirement for Expansion of Our Telecommunication Services***

The funds required to provide cellular and fixed-line services in our additional circles and national long distance services are given below:

***Cellular Services***

Bharti Cellular, our wholly-owned subsidiary, has recently entered into license agreements with the DoT to provide cellular services in eight additional circles of Gujarat, Haryana, Kerala, Madhya Pradesh, Maharashtra, Mumbai, Tamil Nadu and Uttar Pradesh (West). The cellular license to provide cellular services in the Punjab circle has also been recently restored in favour of Bharti Mobile.

The estimated funds requirement to set up cellular networks in the nine additional circles is set forth below:

| **Particulars** | **Amount until period ending March 31, 2002 (in Rs. millions)** | | |
|---|---|---|---|
| | **Bharti Cellular** | **Bharti Mobile** | **Cellular Total** |
| Entry fee for eight new circles | 6,907 | 0 | 6,907 |
| Restoration of the Punjab license in favour of Bharti Mobile(1) | 0 | 4,910 | 4,910 |
| Land and building | 930 | 80 | 1,010 |
| Plant and machinery(2) | 5,949 | 521 | 6,470 |
| Miscellaneous fixed assets(3) | 1,497 | 176 | 1,673 |
| **Total** | **15,283** | **5,687** | **20,970** |

(1) Includes a disputed amount paid towards the restoration of the Punjab license as "outstanding dues". This amount is subject to arbitration between Bharti Mobile and the DoT. For further details on the dispute that has been referred to arbitration, see "Outstanding Litigations and Material Developments".

(2) Includes switches and network management system at the MSCs;

BSCs, BTSs, and transport network, that is microwave links and communication links, or E1's;

Intelligent Network platform for pre-paid, Virtual Private Network, or VPN;

Information technology tools for providing General Packet Radio Services or GPRS, Wireless Application Protocol or WAP, SMS and Voice Mail Service or VMS; and utilities such as air-conditioners, diesel generation sets and electrical equipment.

(3) Includes pre-operative expenses to be capitalised as per applicable accounting principles, computers, office equipment, vehicles, and furniture and fixtures.

We plan to fund our subsidiaries, Bharti Cellular and Bharti Mobile, for setting up cellular networks in nine additional circles as set forth below:

Amount (in Rs. Millions)

| **Particulars** | **Bharti Cellular** | **Bharti Mobile** | **Cellular Total** |
|---|---|---|---|
| Equity / Advance against Equity(1) | 2,917 | 1,100 | 4,017 |
| Internal Accruals | 1,483 | 0 | 1,483 |
| Borrowings including Shareholder Loans | 6,600 | 4,310 | 10,910 |
| Vendor Financing(2) | 4,283 | 277 | 4,560 |
| **Total** | **15,283** | **5,687** | **20,970** |

(1) Contribution of Bharti Tele-Ventures may change depending on the amount of internal accruals generated by these respective subsidiaries.

(2) Vendor financing is expected to be replaced with long-term financing during the financial year 2003.

We have entered into license agreements with the DoT to provide cellular services in nine circles after a payment of Rs.11,817 million towards entry fee (including the disputed amount towards restoration of the Punjab license).

We have entered into rate contracts (under which unit prices for the supply of equipment is fixed for a particular period of time and purchase orders are placed based on the network rollout plan) with Siemens, Ericsson and Motorola on September 27, September 28 and September 27, 2001, respectively, for the purchase of network equipment. The following table indicates the details of suppliers from whom the network equipment is to be purchased for each of the nine circles:

| Circles | Cellular Equipment: Network Support System | Base Support System | Intelligent Network |
|---|---|---|---|
| Mumbai | Siemens | Motorola | Siemens |
| Maharashtra | Siemens | Motorola | Siemens |
| Gujarat | Siemens | Motorola | Siemens |
| Madhya Pradesh | Siemens | Siemens | Siemens |
| Haryana | Ericsson | Ericsson | Ericsson |
| Uttar Pradesh (West) | Ericsson | Ericsson | Ericsson |
| Kerala | Ericsson | Ericsson | Ericsson |
| Tamil Nadu | Ericsson | Ericsson | Ericsson |
| Punjab | Ericsson | Ericsson | Ericsson |

We have placed purchase orders for the supply of equipment for some of our additional circles. We have identified and in some cases acquired, locations for the MSCs and cell sites. All the nine networks will be GPRS ready. We are in negotiations with the vendors listed above for the purpose of purchasing equipment for offering planned value added services.

We have also entered into a contract for the *Kenan* centralised billing system with Lucent Technologies, which will service all of our existing and additional cellular circles. The above fund requirement, however, only reflects the incremental cost of the billing system for the additional circles.

The expenditure incurred by us through November 30, 2001 to construct our cellular networks in our new circles is set forth below:

| Particulars | Amount until period ended November 30, 2001 (in Rs. millions) |
|---|---|
| Entry fee | 11,817 |
| Land and building | 83 |
| Plant and machinery | 97 |
| Miscellaneous fixed assets | 7 |
| Pre-operative expenses(1) | 17 |
| **Total amount invested** | **12,021** |

(1) A significant part of our pre-operative expenses will be capitalised, in accordance with applicable accounting principles.

This investment in cellular subsidiaries has been funded through a combination of internal accruals of Rs. 1,483 million and borrowings and shareholder loans of Rs. 10,538 million.

We expect to commence providing cellular services in all the additional circles by the middle of this year.

***Fixed-Line Services***

Bharti Telenet, our wholly-owned subsidiary, is expanding its operations to provide fixed-line services in the four circles of Haryana, Delhi, Karnataka and Tamil Nadu, for which it has entered into licenses with the DoT. We believe that these four circles have high revenue potential and high potential for carrying data traffic. The estimated funds requirement by Bharti Telenet to set up fixed-line networks in the above circles is set forth below:

| Particulars | Amount until period ending March 31, 2002 (in Rs. millions) |
|---|---|
| Entry fee | 1,450 |
| Land, and Building(1) | 600 |
| Plant and Machinery(2) | 2,240 |
| Miscellaneous Fixed Assets(3) | 510 |
| **Total** | **4,800** |

(1) Includes buildings for MSUs, RSUs and offices.

(2) Includes Network Management System constituting Switch - line card, per line software cost and switching fabric required at MSUs and RSUs;

Transport Network – optic fiber cable and electronic equipment like SDH, and local and subscriber access network comprising copper cable, distribution point, pillar, sub-pillar and customer premise equipment, billing system and utilities such as air-conditioner, DG sets and electricals.

(3) Includes pre-operative expenses to be capitalised as per applicable accounting principles, computers, office equipments, vehicles and furniture and fixtures.

We have entered into licenses with the DoT to provide fixed-line services in four circles after payment of entry fee of Rs.1,450 million.

We plan to fund Bharti Telenet for setting up fixed-line networks in four additional circles as set forth below :

| Paritculars | Amount (in Rs. Millions) |
|---|---|
| Equity / Advance against Equity | 3,700 |
| Vendor financing(1) | 1,100 |
| **Total** | **4,800** |

(1) Vendor financing is expected to be replaced with long-term financing during financial year 2003.

In December 2001, we commenced our fixed-line services in Gurgaon and Faridabad, in the Haryana circle. In the other circles, we have already identified most of the locations for offices, MSUs and RSUs. We have also entered into contracts for civil works, renovation, air-conditioning and interiors for the identified locations.

We have already finalised the terms and conditions of the contracts with our vendors for various equipment required to set-up our networks. The following table indicates the details of suppliers from whom network equipment is to be purchased for each of the four circles:

| | *Fixed-Line Equipment* | | |
|---|---|---|---|
| **Circles** | **Switch** | **SDH** | **Copper Cable/OFC** |
| Haryana | Siemens(1) | Nortel | Vindhya/Corning(3) |
| Delhi | Siemens | Nortel | Vindhya/Corning(3) |
| Karnataka | Siemens | Siemens(2) | Vindhya/Corning(3) |
| Tamil Nadu | Siemens | Siemens | Vindhya/Corning(3) |

(1) Switches already installed and operational at Haryana.

(2) Rate contract awarded. Orders are yet to be placed.

(3) Vindhya / Corning are among our main suppliers.

We have already entered into agreements with various vendors for the purpose of laying our network and have incurred capital expenditure under those agreements. We have also signed a contract for the *Kenan* centralised billing system with Lucent Technologies, which will service all our existing and new fixed-line circles.

The expenditure incurred by us through November 30, 2001 on setting up the networks for providing fixed-line services in the new circles is set forth below:

| Particulars | Amount until period ended November 30, 2001 (in Rs. millions) |
|---|---|
| Entry Fee | 1,450 |
| Land and building | 155 |
| Plant and machinery | 696 |
| Miscellaneous fixed assets | 99 |
| Pre-operative expenses (1) | 323 |
| **Total amount invested** | **2,723** |

(1) A significant part of pre-operative expenses will be capitalised, in accordance with applicable accounting principles.

The above investment has been funded through a combination of equity of Rs. 1 million, and shareholder loans amounting to Rs. 2,722 million. The process of conversion of shareholder loans into equity/advance against equity will begin after the completion of this Offering.

We intend to commence providing fixed-line services in all the new circles by the middle of this year.

***National Long Distance Services***

Bharti Telesonic, our wholly-owned subsidiary, has entered into a license agreement with the DoT to provide national long distance services. The estimated fund requirement by Bharti Telesonic for setting up a national long distance network is set forth below:

| Particulars | Amount until period ending March 31, 2002 (in Rs. millions) |
|---|---|
| Entry fee | 1,000 |
| Land, and Building(1) | 240 |
| Plant and Machinery(2) | 6,780 |
| Miscellaneous Fixed Assets(3) | 710 |
| **Total** | **8,730** |

(1) Includes the land and building for location of switch centres and transmission node centres and offices among other things.

(2) Includes the cost of switches, IN system, ATM switches, Internet Protocol switch; transmission network duct, optic fiber cable and electronic equipment like SDH; billing system, network management system, customer care equipment and utilities such as air-conditioner, DG sets and electricals.

(3) Includes pre-operative expenses which would be capitalised as per applicable accounting principles, testing equipments, computers, office equipments, vehicles and furniture and fixtures.

We plan to fund Bharti Telesonic, for setting up a national long distance network as per the following :

| Paritculars | Amount (in Rs. Millions) |
|---|---|
| Equity / Advance against Equity | 3,100 |
| Borrowing including Shareholders Loans | 4,500 |
| Vendor financing[(1)] | 1,130 |
| **Total** | **8,730** |

(1) Vendor financing is expected to be replaced with long-term financing during financial year 2003.

The following table indicates the details of suppliers from whom network equipment has been purchased or is proposed to be purchased:

| Equipment | Selected Supplier |
|---|---|
| Switch and IN system | Siemens |
| SDH | Nortel |
| ATM | Alcatel |
| Duct | Dura-line |
| OFC [(1)] | Corning, Lucent |

(1) Small quantities of OFC are also intended to be purchased from LG Cable, Vindhya, Sterlite, RPG and Aksh.

We have already installed the switches and commenced offering data services in certain regions in India. We expect to commence providing voice services shortly, subject to receipt of requisite regulatory approvals.

The expenditure incurred by us through November 30, 2001 on setting up the network for providing national long distance services is set forth below:

| Particulars | Amount until period ended November 30, 2001 (in Rs. millions) |
|---|---|
| Entry fee | 1,000 |
| Land and Building | 399 |
| Plant and Machinery | 2,526 |
| Miscellaneous fixed assets | 17 |
| Pre-operative expenses [(1)] | 167 |
| **Total amount invested** | **4,109** |

(1) A significant portion of pre-operative expenses will be capitalised in accordance with applicable accounting principles.

The above investment has been funded through a combination of equity of Rs. 2,500 million and shareholder loans of Rs. 1,609 million. The process of conversion of shareholder loans into equity/advance against equity will begin after the completion of this Offering.

***Total Funds Requirement for Telecommunications Projects***

The estimated fund requirement, amount spent until November 30, 2001 and net fund requirement for these projects is as under:

| Particulars | Subsidiary | Amount until period ending March 31, 2002 | Amount spent as of November 30, 2001 | Net fund requirement as of March 31, 2002 (in Rs. millions) |
|---|---|---|---|---|
| Additional Cellular Circles | Bharti Cellular | 15,283 | 7,064 | 8,219 |
| | Bharti Mobile | 5,687 | 4,957 | 730 |
| Additional Fixed-Line Circles | Bharti Telenet | 4,800 | 2,723 | 2,077 |
| National Long Distance | Bharti Telesonic | 8,730 | 4,109 | 4,621 |
| **Total Project Cost for Telecommunications Projects** | | **34,500** | **18,853** | **15,647** |

It is assumed that the projects will not have net working capital requirements, as the current liabilities is expected to exceed the current assets.

***Funding Plan of Subsidiaries***

Bharti Tele-Ventures intends to make investments in the subsidiaries through a combination of equity and shareholder loans. The Board of Directors of Bharti Tele-Ventures and the respective companies will decide the terms and conditons for the shareholder loans, based on the then prevailing market conditions. The terms of the shareholder loans made till November 30, 2001 were determined by the Board of Directors of Bharti Tele-Ventures based on the then existing market conditions and do not exceed 10% per annum. The contribution of Bharti Tele-Ventures may change, depending on the amount of internal accruals generated by these respective subsidiaries.

In addition, Bharti Tele-Ventures has also received in-principle approvals from certain lenders for part of the borrowings planned for these new telecommunication projects, subject to the terms and conditions to be finalised prior to the disbursement, based on market conditions. Even if the draw-downs against the said in-principle approvals do not materialise till March 31, 2002, we believe, that we would have sufficient arrangements to meet the balance fund requirement with available cash, the proceeds of this Issue, internal accruals, vendor and other credit.

***Repayment of Loan***

Bharti Cellular has obtained a loan facility of Rs.2 billion from IDBI, which carries an interest of 375 basis points over the one year Government-Securities yield. The interest rate will be reset and paid at quarterly intervals. The loan is repayable in one instalment after eighteen months. Bharti Cellular and IDBI have a put and call option respectively at the end of 12 months. Bharti Tele-Ventures has given an undertaking that the loan would be repaid from the net proceeds of this Offering and any debt raised by Bharti Cellular before utilising the proceeds from this Offering or any such debt raised for any other purpose. This would not impact the project cost, as this is a bridge loan and the proceeds of this loan will be utilised for expansions of our telecommunications services as detailed above. For further details, see "Description of Certain Indebtedness".

***Acquisition of Minority Interests and General Corporate Purposes***

We intend to hold a 100% equity interest in all our subsidiary companies. In Bharti Mobile and Bharti Mobinet, we currently have 74% and 95.3% effective interest, respectively, with the balance of each entity being held by a minority shareholder. We have entered into an agreement with DSS for the purchase of their shareholding in Bharti Mobinet. This agreement is subject to a dispute and litigation. For further details, see "Outstanding Litigations and Material Developments". Presently, we have not entered into any agreement with Telia for purchase of its 26% shareholding in Bharti Mobile.

We intend to use approximately Rs.750 million of the net proceeds of this Offering for general corporate purposes, including investing in the broadband business.

***Issue expenses***

The expenses for this Offering include underwriting and management fees, selling commissions, printing and distribution expenses, legal fees, statutory advertisement expenses and listing fees payable to the stock exchanges, among others. The total expenses for this Offering are estimated to be approximately 6% of the total proceeds of this Offering.

The total fund requirement estimated through March 31, 2002 is set forth below:

| **Particulars** | **Amount until period ending March 31, 2002 (in Rs. millions)** |
|---|---|
| Additional Cellular Circles | 20,970 |
| Additional Fixed-Line Circles | 4,800 |
| National Long Distance | 8,730 |
| General corporate purposes including broadband business | 750 |
| **Total** | **35,250** |

***Funds Deployed***

The expenditure incurred by us on the cellular, fixed-line and national long distance services up to November 30, 2001, as certified by our auditors, *Price Waterhouse,* in their certificates dated January 10, 2002 was approximately Rs.18,853 million. Details of the expenditure already incurred by us upto November 30, 2001, are set forth below:

| **Particulars** | **Funds Deployed (in Rs. millions)** |
|---|---|
| *Expenditure incurred until November 30, 2001 on :* | |
| Additional Cellular Circles | 12,021 |
| Additional Fixed-Line Circles | 2,723 |
| National Long Distance | 4,109 |
| **Total Funds Deployed** | **18,853** |

***Sources of Financing of Funds Deployed***

We have financed the funds deployed by a combination of equity contributions received from our shareholders, cash generated from our operations and long and short-term borrowings arranged from domestic financial institutions and shareholder loans, as set forth below:

| **Sources** | **Amount (in Rs. millions)** |
|---|---|
| Equity / Advance against equity | 14,550 |
| Internal Accruals | 1,483 |
| Borrowings and shareholder loans(1) | 2,820 |
| **Total** | **18,853** |

(1) For details on the terms and conditions for borrowings made by these subsidiaries for funding the telecommunication projects detailed in this section, see "Description of certain Indebtedness".

***Sources of Financing of Our Balance Fund Requirement***

The balance of our funds requirement will be met through a combination of existing resources, vendor financing or supplier credit, internal accruals, borrowings and the proceeds of this Offering.

***Interim Use of Proceeds***

Pending any use as described above, we intend to invest the proceeds of this Offering in high quality, interest bearing liquid instruments including deposits with banks for the necessary duration. These investments would be authorised by our Board or a duly authorised committee thereof.

# INDIA AND INDIAN TELECOMMUNICATIONS INDUSTRY OVERVIEW

***India***

India is the world's largest democracy in terms of population and had a real GNP on purchasing power parity basis of approximately US$2.4 trillion for 2000, making it the fourth largest economy in the world, after the United States of America, China and Japan, as per the World Development Report for 2000-2001. The recent changes in the global slowdown and other world developments, however, may have an adverse impact on the India's economic condition and in turn adversely impact the telecommunications industry.

The following table sets forth the annual percentage change in certain key indicators of the Indian economy.

| | As of and for the year ended March 31, (annual percentage change, except for foreign exchange reserves) | | | |
|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 |
| Real GDP growth (1) | 4.8 | 6.6 | 6.4 | 6.0 |
| Real per capita GDP growth (2) | 2.8 | 5.0 | 5.4 | - |
| Agricultural production | (6.2) | 8.2 | (1.5) | (4.6) |
| Industrial production (2) | 6.6 | 4.1 | 6.6 | 5.1 |
| Inflation Rate based on Wholesale Price Index (average) (2) | 4.4 | 5.9 | 3.3 | 7.1 |
| Imports (% to GDP) (2) | 10.2 | 10.1 | 10.4 | 10.7 |
| Exports ("% to GDP) (2) | 8.6 | 7.9 | 8.3 | 9.2 |
| Foreign Exchange Assets (in US$ billions) (2) | 22.4 | 26.0 | 29.5 | 35.1 |

*Source:*

(1) Economic Survey, conducted by the Government of India annually. Data for 2001 is as per advance estimates, as provided in the Economic Survey.

(2) Data released by CMIE.

India had a population of approximately one billion in April 2001 and is the world's second most populous country after China. Agriculture remains India's largest economic sub-sector and employs approximately two-thirds of its workforce. English is widely spoken among the professionals and in the business community, as well as in many Government offices across India. India has a large pool of qualified and experienced professionals in various disciplines, particularly in information technology.

Successive Governments, since 1990, have laid emphasis on economic reforms resulting in lesser government control and liberalisation of economic policies. India has a well-developed capital markets system. The following table sets forth, for the periods indicated, the inflows into India of foreign direct investment and portfolio investment.

| | Year ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| | | | | (in millions) | | |
| Foreign direct investment | US$2,144 | US$ 2,841 | US$ 3,562 | US$ 2,480 | US$2,167 | US$2,342 |
| Portfolio investment | 2,661 | 3,312 | 1,828 | (68) | 3,024 | 1,083 |

*Source* : Data released by CMIE

***Indian telecommunications industry overview***

The Indian telecommunications industry has experienced high growth in recent years. According to the COAI, total number of cellular subscribers in India has increased from approximately 0.3 million as of March 31, 1997 to approximately 3.6 million as of March 31, 2001. The total number of fixed-line subscribers has increased from approximately 14.5 million as of March 31, 1997 to approximately 32.4 million as of March 31, 2001.

The following table illustrates the growth in the Indian telecommunications industry:

| | As of March 31, | | | | | CAGR (%) |
|---|---|---|---|---|---|---|
| | 1997 | 1998 | 1999 | 2000 | 2001 | 1997 to 2001 |
| Cellular Subscribers (thousands) (1) | 339 | 882 | 1,200 | 1,884 | 3,557 | 80.0 |
| Fixed-line Subscribers (thousands) (2) | 14,543 | 17,802 | 21,594 | 26,511 | 32,436 | 22.2 |

*Source:*

(1) Data released by COAI periodically

(2) Based on annual reports of BSNL.

We believe that the Indian telecommunications market is under penetrated and offers significant potential for growth. The cellular and fixed-line penetration levels in India are lower than those in most developed countries in the world. We expect that the following factors will contribute to the growth of the Indian telecommunications industry:

- Economic growth and continued development of the Indian economy;
- Higher growth rate of service oriented sector, leading to an increased demand for telecommunications services;
- Increased use of information technology and Internet, leading to a large demand for data communications services;
- Declining tariffs, reduced equipment cost and reduced handset costs over time;
- Increasing customer choice and demand for value added services; and
- Increasing globalisation of the Indian business, leading to increase in international voice and data traffic.

***Indian telecommunications industry structure***

Until the mid-1980s, the telecommunications industry in India was a monopoly, managed and controlled by the Government. Faced with rapidly increasing demands for telecommunications services and equipment, the Government commenced a re-organisation of the telecommunications industry.

As a part of the reorganisation exercise, MTNL, a Government company, was established in 1986 to provide telephone and telex services under a non-exclusive license in Delhi and Mumbai. The principal services offered by MTNL continue to be fixed-line services, including offering limited mobility services in Delhi using WLL. In 1998, MTNL was amongst the first few players to launch Internet services after the opening up of this sector. In February 2001, MTNL launched cellular services in Delhi and Mumbai.

VSNL was established in 1986 to provide international telecommunications services and DoT retained responsibility for providing all other telecommunications services throughout India. The Telecom Commission was established in 1989 as an executive body under the Ministry of Communications to formulate policy for the approval of the Government and implement the Government's policy in matters concerning telecommunications.

In December 1991, the Government initiated the process of opening up of the telecommunications industry, by inviting bids from private operators to provide cellular services in the four metropolitan cities of Mumbai, Delhi, Kolkata and Chennai. In January 1995, the Government invited tenders from private operators to provide cellular services in eighteen telecommunications circles, excluding the four metropolitan areas. The circles were classified into three categories ("A" through "C") based principally on their revenue generating potential with Category A circle having the highest revenue potential.

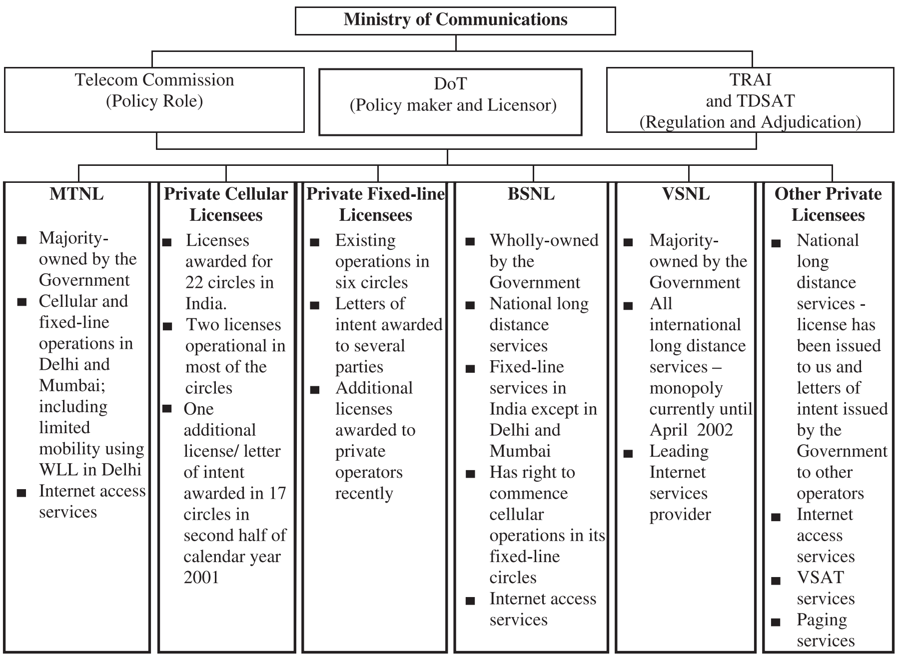
In 1994, Government invited bids from Indian companies for providing fixed-line telecommunications services in 21 circles.

In March 1999, the Government announced the NTP 1999, which permitted the fixed-line and cellular service providers to migrate from a fixed license fee regime to a revenue sharing arrangement. It also permitted unlimited competition in the fixed-line services and entry of an additional private cellular operator in all the existing cellular circles.

In October 1999, DoT was bifurcated into two departments: the DoT, which performs the role of licensor and policy maker, and the DTS, which was to function as the service provider. The service provider was corporatised in October 2000, as a new entity - Bharat Sanchar Nigam Limited, or BSNL, which provides telecommunications services in the entire country except in Delhi and Mumbai, where MTNL continues to be the Government controlled service provider. In August 2000, the Government announced the terms of the policy for national long distance services, starting unlimited competition in these services.

In early 2001, MTNL commenced cellular operations in Delhi and Mumbai and BSNL announced its plans to provide cellular services in certain circles. As per the recommendation of NTP 1999, the Government announced the guidelines for unlimited competition in the fixed-line services and bidding process for award of one additional cellular license for a fourth operator in the cellular circles. Subsequently, licenses were awarded by the Government to the selected bidders.

The present operational and regulatory structure of telecommunications services industry in India is set forth below:



# THE INDIAN TELECOMMUNICATIONS INDUSTRY REGULATION

***TRAI Act, 1997***

In January 1997, the President of India issued an ordinance providing for the establishment of the Telecommunications Regulatory Authority of India, or TRAI, an autonomous body with quasi-judicial powers to regulate telecommunications services in India. This ordinance was replaced in March 1997 by the Telecom Regulatory Authority of India Act, 1997, or the TRAI Act. The TRAI Act has been amended by the Telecom Regulatory Authority of India (Amendment) Act, 2000, pursuant to which TRAI's powers to adjudicate disputes have been vested in the Telecom Disputes Settlement and Appellate Tribunal, or TDSAT.

The regulatory functions of TRAI fall within two broad categories - recommendatory and mandatory.

The principal recommendatory functions of TRAI may be exercised either on its own initiative or on request from the licensor on matters ranging from introduction of new service providers, terms and conditions of licenses to be awarded to service providers, revocation of licenses, measures to facilitate competition and promote efficiency in the operation of telecommunications services, measures for the development of telecommunications technology, efficient management of the available spectrum and any other matter related to the telecommunications industry.

The recommendations of TRAI in respect of all the matters referred to above are not binding upon the Government.

The principal mandatory functions of TRAI include fixing tariffs, ensuring compliance with the terms and conditions of licenses, fixing the terms and conditions of interconnection arrangements between service providers, ensuring technical compatibility and effective interconnection between different service providers, regulating revenue sharing arrangements among service providers, ensuring effective compliance of universal service obligations, establishing standards of quality of service to be provided by service providers and ensuring the quality of service, periodically surveying such service in order to protect the interest of the consumers and establishing and ensuring the time period for providing local and long distance circles between different service providers.

TRAI also has the authority to levy fees and other charges at such rates and in respect of such services as it may determine and to perform such other functions including administrative and financial functions as may be entrusted to it by the Government or as may be necessary to implement the provisions of the TRAI Act.

TDSAT has been granted powers to adjudicate any dispute between a licensor and a licensee, between two or more service providers, and between a service provider and a group of consumers. TDSAT also has the jurisdiction to hear and dispose off appeals against any direction, decision or order of TRAI. Decisions of TDSAT are appealable to the Supreme Court of India.

***Key Development - New Telecommunications Policy 1999, or NTP 1999***

In March 1999, the Government announced NTP 1999, which gives a policy framework for telecommunications regulation in India. The specific goals that NTP 1999 sought to achieve were:

- achieve telephone on demand by 2002 and increase penetration to 7% by 2005 and 15% by 2010;
- encourage development of telecommunications in rural areas by making it more affordable by suitable tariff structures and making rural connectivity mandatory for all service providers;
- increase rural penetration to 4% by 2010 and provide reliable transmission media to all rural areas;
- achieve telecommunications coverage in all villages and provide reliable media to all exchanges by 2002;
- provide Internet access to all district headquarters; and
- provide high speed data and multi-media capability to all towns with a population greater than 200,000 by 2002.

***Regulations Governing Our Business***

The key regulations governing our business areas – cellular, fixed-line, national long distance and broadband – are detailed below:

***Cellular Business***

*Initial Licensing Phase and NTP 1999*

In December 1991, the DoT invited bids from Indian companies with no more than 49% foreign ownership for non-exclusive licenses to provide digital cellular mobile services in the four metropolitan areas of Mumbai, Delhi, Kolkata and Chennai. After protracted litigation arising from the selection process, the DoT finally entered into two licenses for each of the four metropolitan areas. In January 1995, the DoT invited tenders from Indian companies with no more than 49% foreign ownership for non-exclusive licenses to provide digital cellular mobile services in eighteen telecommunication circles, excluding the four metropolitan circles. The circles were classified into three categories ("A" through "C") based principally on their revenue generating potential with Category A circle having the highest revenue potential. The terms of the licenses provided for two operators per metropolitan area and per circle and the requirement for the cellular operators to interconnect through the fixed-line networks of BSNL and MTNL. The Government reserved the right to provide cellular services in each metropolitan area and circle through MTNL or the DoT (now BSNL).

Cellular services were introduced in India on a commercial basis in the four metropolitan areas during 1995 and in most of the other circles between 1996 and 1998. As the bidding process had resulted in high fixed license fees being payable by the successful bidders in most circles, several private operators defaulted on their license fee obligations and were unable to complete the build out of their networks. In certain cases, the DoT revoked or suspended the licenses issued to such operators.

As a result of the difficulties faced by licensees under the initial telecommunications licensing regime, the Government announced the NTP 1999 in March 1999. NTP 1999 envisaged a shift from the fixed annual fee to a revenue sharing arrangement for payment of license fees by the private operators to the Government, extension of the initial license period from 10 to 20 years and the entry of a fourth operator through a bidding process. NTP 1999 permitted BSNL and MTNL to provide cellular services as the third cellular operator in those areas where they were providing fixed-line services. NTP 1999 envisaged that licenses would be issued in future to additional operators in a circle, based on TRAI's recommendations from time to time on the availability of the spectrum, optimal use of spectrum, market demand, competition and public interest.

*Fourth Operator Guidelines*

In January 2001, the Government announced guidelines for the fourth cellular operator to provide cellular services in the country. The guidelines envisaged a non-exclusive license for a period of 20 years (thereafter extendable by 10 years) in the 1800MHz frequency range. While issuing the license, the Government stipulated minimum paid-up capital and networth requirements for the bidder and the promoters in respect of each category of circle. The guidelines further stipulate that for the entire duration of the license, total foreign equity in the bidding company should not exceed 49% of the paid-up capital and that management control should vest with the Indian promoter. The guidelines stipulated that a company is not permitted to have an interest in more than one bidder company for the same service area and the existing licensees are not permitted to bid for the same service area.

The Government prescribed roll-out obligations for the fourth operator, requiring coverage of at least 10% of the district headquarters within the circle, or DHQs, in the first year and 50% of the DHQs within three years of the effective date of the license. Coverage of a DHQ would require radio coverage of at least 90% of the area bound by the municipal limits in a DHQ.

Pursuant to these guidelines and the resulting bidding process, we have been awarded licenses in Mumbai and seven other circles. For further details on the terms of the license agreements in respect of these eight circles and the restored license agreement entered into in respect of the state of Punjab, see "Government Approvals/ Licensing Arrangements".

*Revenue Sharing Percentage*

On the basis of NTP 1999, in July 1999, the Government gave the existing cellular service providers the option to migrate from the fixed annual license fee regime to a revenue share regime with a one-time entry fee. Under this migration package, the license fee payable by the existing licensee up to July 31, 1999 was treated as a one-time entry fee. From August 1, 1999, the license fee payable is a percentage of the revenue earned under the license. The provisional license fee was fixed at 15% of gross revenues (as determined according to the license agreement with the DoT) for all categories of circles.

In September 2001, the DoT fixed the license fees payable by the existing or future cellular service providers at 12% of adjusted gross revenues, or AGR in metropolitan areas and category A circles, 10% in category B circles and 8% in category C circles. The license fees in respect of existing cellular service providers has retroactive effect from January 26, 2001. It has also been specified that these rates will be payable unless existing or future fixed-line service providers are prohibited from providing limited mobility using WLL, in which event the license fees will be payable by all the cellular service providers at a revised rate of 15% of AGR.

The DoT has also specified that an additional charge will be levied on the cellular service providers for use of spectrum, depending upon the spectrum allotted. If the spectrum allotted is upto 4.4 MHz+4.4 MHz, royalty charge will be 2% of AGR and if the spectrum is allotted upto 6.2MHz+6.2MHz, royalty will be 3% of AGR. Additional royalty for use of spectrum for point to point links and access links is also payable as specified by the WPC.

*Tariffs*

TRAI has stipulated a maximum tariff that may be charged by cellular operators. In addition, the expected reduction in future license fee payments for cellular service providers as a result of the migration to the revenue share regime necessitated a need for TRAI to review the "cost based tariffs" that it had specified for cellular services in May 1999. As a result, in September 1999, cellular operators were directed to reduce monthly rental charges with effect from November 1, 1999 and reduce airtime charges with effect from February 1, 2000.

The following table describes the tariff revision:

| | Rates before NTP 1999 recommendations | Rates after NTP 1999 recommendations | |
|---|---|---|---|
| | | **Metropolitan Areas** | **Circles** |
| Monthly Rentals | Rs. 600 | Rs. 475 | Rs. 500 |
| Airtime Charges - Incoming and Outgoing | Rs. 6 | Rs. 4 per minute (pulse of 30 seconds) | Rs. 4.50 per minute (pulse of 30 seconds) |
| | | Rs. 2 (per additional 30 seconds) | Rs. 2.25 (per additional 30 seconds) |

While it is mandatory for service providers to offer the standard tariff package prescribed by the TRAI to their subscribers, the service providers have the flexibility to offer other tariff schemes.

*Interconnection*

NTP 1999 permitted cellular providers and any other type of telecommunications service provider in the same area of operation to interconnect, including sharing infrastructure, if required. New entrants are also permitted to provide all types of cellular services, including voice and non-voice messages, data services and public calling offices, or PCOs, utilizing any type of network equipment so long as it meets certain technical standards.

The Government has allowed the cellular operators to retain 5% of MTNL's or BSNL's charges for calls routed through their fixed-line network.

*Calling Party Pays*

TRAI is currently considering implementation of a calling party pays cellular tariff structure pursuant to which the originator of a call to a cellular network would pay the entire tariff and no charges would be levied on the terminating cellular user. TRAI had sought to implement this structure with effect from November 1, 1999. However, the calling party pays structure has been challenged in the Delhi High Court by the DoT, and pending a final resolution of the dispute, the Delhi High Court has stayed the implementation of a calling party pays structure.

***Fixed-Line Business***

*Initial Licensing Phase and NTP 1999*

In September 1994, the Government announced guidelines for private sector entry into fixed-line telecommunications services, which provided for the grant of a license for the provision of fixed-line services to one new licensee in each of the 21 telecommunications "circles" into which the country had been divided. Within each circle, the new licensee would compete with MTNL (in Delhi and Mumbai) and BSNL (in all other circles). Foreign ownership of each new licensee was restricted under the guidelines to a maximum of 49%.

As a result of the slow growth of fixed-line services, the Government through NTP 1999, liberalised the industry by allowing multiple fixed-line service providers in a service area, with the number of new entrants and their mode of selection to be determined by the Government based on recommendations of the TRAI. Additionally, the term of the license was extended from 15 to 20 years. NTP 1999 permits, but does not require, interconnection between fixed-line service providers and any other type of service providers within their circle. New entrants are permitted to provide all types of fixed-line services, including voice and non-voice messages and data services, utilising any type of network equipment meeting certain minimum technical standards.

*Entry of Additional Operators: January 2001 Guidelines*

In January 2001, the Government announced guidelines for opening up of the fixed-line services sector to additional operators. The guidelines include:

- Fixed entry fees proposed for new players ranging from Rs. 10 million to Rs. 1.15 billion depending on the circle;
- License shall be issued on a non-exclusive basis, for a period of 20 years, extendable by 10 years at a time;
- The total foreign equity in the licensee is restricted to 49% during the term of the license;
- The applicant company should have a minimum paid up capital and networth requirement, depending upon the circle. For instance, for an applicant for Category A circle, the paid up capital requirement is Rs. 1 billion and networth of its shareholders who have at least a 10% equity stake in the total equity of the applicant company should be at least Rs. 10 billion;
- Entities having at least 30% of the total equity of the licensee must have experience in the telecommunications sector;
- The annual license fee is proposed at 12%, 10% and 8% of AGR for operators in Category A, B and C circles, respectively; and
- The licensees have to cover progressively 15%, 40%, 80% and 100% of the license area at the end of two, three, five and seven years, respectively, from the effective date of the license agreement.

Pursuant to these guidelines, we have entered into license agreements with the DoT to provide fixed-line services in Delhi, Haryana, Karnataka and Tamil Nadu. For details of the terms of these licenses, see 'Government Approvals / Licensing Arrangements'.

*Revenue Sharing Percentage*

In respect of our fixed-line service operations in Madhya Pradesh and Haryana, we pay 10% of the revenue earned (net of interconnection charges and service tax) as an annual license fee.

In respect of our new licenses, the DoT has stipulated that the annual license fee is 12%, 10% and 8% of the annual gross revenues for metropolitan area and category A, B and C circles, respectively. Further, an additional revenue share of 2% from WLL subscribers shall be levied as spectrum charge for allocation of upto 5 + 5 MHz in 824-844 MHz band in a complete service area for wireless subscriber access system. This includes royalty for spectrum of upto 5 + 5 MHz as well as the license fee for the base station and subscriber terminal (handheld or fixed). The same principle is to be followed for spectrum charges in 1800-1900 MHz band for micro cellular technology based system.

*Interconnection*

In the case of outgoing calls form our fixed-line networks, we are permitted to retain:

- 60% of revenues for national long distance calls (including inter-state calls and any intra-state calls terminating outside the local area where the call was made and not carried exclusively on our network); and
- 45% of revenue for international calls.

We do not receive any revenue for calls from the fixed-line networks terminating on our network and we cannot impose any charge on its customers for such calls. We are not required to enter into any interconnection arrangement with respect to intra-circle calls that we carry exclusively on our network and are therefore entitled to retain 100% of the revenues from such calls.

*Limited Mobility using WLL*

In January 2001, the Government approved TRAI's recommendation to permit fixed-line operators to provide limited mobility services using WLL, within the Short Distance Calling Area, or SDCA, in which the subscriber is registered. India has been divided into approximately 2,650 SDCAs, typically, each township being an SDCA. COAI has contested the decision of the Government before the TDSAT to permit fixed-line operators to offer limited mobility using WLL; however, such limited mobility has been permitted by the Government, subject to the decision of the TDSAT.

The Government has specified that V5.2 technology or any approved improved version with latest technology be deployed for offering limited mobility using WLL, which restricts the service area of such limited mobility. TRAI has recommended a minimum monthly rental between Rs.450 and Rs.550 from subscribers choosing limited mobility using WLL and fixed call charges which is currently Rs.1.20 for every three minutes for outgoing local calls and free incoming calls. The service provider is not permitted to offer alternative tariff structures if it offers limited mobility using WLL.

*Tariffs*

TRAI, in its order dated March 9, 1999, reduced the tariffs that fixed-line service providers charged their customers. This was done by aligning tariffs that service providers charged with the cost of providing the applicable service and also ensuring the commercial viability of the tariff structure to the service providers so as to encourage the expansion of the Indian telecommunications industry. As per the order, the maximum charge per pulse (or metered unit) was reduced from Rs.1.40 to Rs.1.20, monthly rentals were increased, local call pulse duration was decreased (thereby effectively increasing local call charges by 40%). The order allowed the service provider the flexibility to modify the pulse rate.

***National Long Distance Business***

NTP 1999 proposed permitting national long distance to competition with effect from January 1, 2000. In August 2001, the Government announced the terms of its national long distance services policy. As per the policy, India has been divided into 21 circles that are more or less contiguous with India's existing states; the circles have further been divided into 322 Long Distance Charging Areas, or LDCAs and such LDCAs have been divided into short distance charging areas, or SDCAs.

The national long distance service provider will have a right to carry inter-circle calls and, in addition, the Government has permitted the long distance service providers to carry intra-circle traffic only in conjunction with the service providers in the respective circles. In such a case, the sharing of call revenues will be as per the agreement between the operators.

Following are the general guidelines for issue of license for national long distance operators:

- There would be no restriction on the number of operators;
- License shall be issued on a non-exclusive basis, for a period of 20 years, extendable by 10 years at a time;
- Total foreign equity in the licensee should not exceed 49% at any time during the term of the license period;
- One time entry fee of Rs.1 billion before signing of the license and four bank guarantees of Rs.1 billion each to be furnished upon execution of the license, which will be released equally in a phased manner subject to fulfillment of the network roll out obligations;
- The licensee shall have a minimum paid up equity capital of Rs.2.5 billion on the date of its application for the national long distance service provider license;
- The shareholders of the applicant company who own at least a 10% equity interest in the applicant company must have a combined networth of at least Rs. 25 billion;
- Shareholders of the applicant company having at least 30% of total equity in the national long distance service provider must have experience in the telecom sector; and
- In addition to entry fee described above, license fee in form of revenue share at 10% plus a contribution towards a Universal Service Obligation Fund (USO) with a maximum total revenue share amount of 15% is payable. For revenue sharing purposes, revenue is defined as gross total revenue accruing to the long distance service provider, including revenue on account of supplementary/ value added services and leasing of infrastructure, interest or dividend, as reduced by an amount equal to pass-through revenues payable to other service providers whose networks are interconnected with the licensee's network. However, any lease or rent charges for hiring of infrastructure shall be considered as revenues and shall not be deducted.

It is mandatory for fixed, cellular and cable service providers to provide interconnection to national long distance service providers. Interconnection charges for national long distance operators have not been specified. According to existing interconnection arrangements between BSNL and private fixed-line operators, a fixed-line operator (unless such operator is offering limited mobility using WLL) is permitted to retain 60% of the charges for inter-circle calls and intra-circles calls (where the call is originated by the fixed-line service provider and not carried exclusively on its network) with the balance going to the national long distance operator. Presently the national long distance operator is permitted to retain 95% of the revenues from long distance calls from cellular subscribers and from services providers offering limited mobility using WLL.

The TRAI has formulated an access mechanism for national long distance services, whereby a subscriber would be able to choose the carrier with which they would like their national long distance calls to be carried. This access mechanism will be operational in India subject to the national long distance providers entering into suitable interconnection and technical arrangements with access providers. To make a national long distance call, a subscriber would be required to dial five prefixed digits, which will be prefixed to the National Significant Number, or NSN, comprising the area code and the local number. The prefixed five digits are in three parts. The first number to be dialed is 0. The second is the Carrier Access Code, or CAC, for national long distance service. This number is 10. The third is the Carrier Identification Code, or CIC, a unique two digit access code for each national long distance operator, including us and the incumbent service provider BSNL. This will be followed by the area code for the state in India and the local telephone number. The two-digit CIC code for Bharti Telesonic is ‘50’. Accordingly, if a person located outside the Delhi circle desires to call the Companies corporate office in New Delhi using the Bharti Telesonic Network, such a person would dial ‘0-10-50-11-664 1321’.

*Infrastructure Providers*

Under the national long distance services policy, telecom infrastructure providers have been divided into two categories:

Category – I or IP-I provider who provide assets such as dark fiber, right of way, duct space and towers to the licensees of telecommunication services. An entity can be registered as a IP-I provider without the need to obtain a license. With respect to this category of providers, there is no restriction on the level of foreign equity or on the number of players and no requirement for the payment of any fees.

Category – II or IP-II providers who lease, rent, or sell end to end bandwidth. While there is no restriction on the number of persons who may be issued IP – II license, the Government has specified the following guidelines for the issue of IP-II license:

- The applicant is required to furnish a performance bank guarantee of Rs. 1 billion before signing the agreement;
- License fees is payable in the form of revenue share at 10% plus prescribed contributions towards the USO fund with a total cap of 15%. Separate fees or royalty for the use of spectrum and possession of wireless equipment are payable to WPC, depending upon factors such as frequency, link length and area of operations;
- License would be issued initially for a period of 20 years, extendable by 10 years;
- Total foreign equity in the applicant is limited to 49%; and
- The applicant shall make its own arrangement for right of way.

*Tariffs*

TRAI, in its order dated March 9,1999, increased national and international call pulse duration, thereby reducing national long distance call charges effectively by 23% and international call charges by 20%.

The DoT represented to TRAI that the impact of the tariff decline for national long distance was more severe than anticipated and any further decrease would impact their plans to roll-out to new towns and villages. TRAI, after review, implemented the second phase of tariff re-balancing from October 1, 2000, instead of its earlier proposed date of April 1, 2000.

The third phase of tariff re-balancing has been deferred to April 2002 and envisaged a further reduction in national long distance tariffs. The first two phases together achieved a significant reduction of the total reduction that had been envisaged by the March 9, 1999 tariff order in national long distance tariffs. However, as national long-distance calling rates are expected to drop once private players enter the national long distance segment, the final phase may not be implemented.

***VSAT Services***

The VSAT guidelines issued by the Government in May 2001 provides offered the then existing VSAT operators the option to migrate to a new regime, subject to completing their roll-out obligations and clearance of all outstanding dues. The guidelines provide for operating VSAT based services in KU-band and also provide for the VSAT operator to provide data connectivity in a closed user group using VSAT and a central hub. The key features of the VSAT policy are:

- The total foreign equity participation in the service provider is limited to 49%;
- VSAT operator would be allowed to transmit data at a band rate of 512 Kbps;
- The term of the license is 20 years extendable by another 10 years;
- A fee of Rs.3 million is to be paid upon execution of the license agreement. The VSAT operator is also required to share 10% of the revenues as license fees, if VSAT services are offered as commercial services;
- The VSAT operators cannot interconnect with public switch transmission networks. However, they are allowed to interconnect to terrestrial data lines and with other VSAT networks and closed user groups on a case to case basis;
- VSAT operators are required to furnish fixed bank guarantees of Rs.3 million for six months and thereafter for one year equivalent to the highest estimated sum payable for an aggregate amount of two quarters as license fees. In addition, they are required to provide a bank guarantee of Rs.5 million; and
- VSAT operators are required to set up a minimum of five VSATs along with a hub within one year of entering into the license agreement, failing which a part of the bank guarantee would be encashed and the VSAT operator would be required to provide an additional bank guarantee.

***Internet Services***

The present Internet Service Provider, or ISP, policy provides for the following:

- The foreign equity participation is permitted upto 100% for an ISP not owning an international gateway and 74% for an ISP owning an international gateway;
- There are three categories of ISP licenses – Category A allows the ISP operator to provide services throughout India, while Category B and Category C restricts the provision of ISP services to limited area within India;
- The initial tenure of the license is 15 years, extendable by 5 years at a time;
- No license fee is payable up to October 31, 2003. For those licensees who have obtained the license prior to October 31, 2003, a nominal fee of Re.1 per annum will become payable from November 1, 2003;
- The ISP licensee is permitted to directly interconnect to other ISPs. ISPs are allowed to set-up international gateways, after obtaining a security clearance from the Government;
- ISPs are free to fix their own tariff; and
- ISPs are required to furnish performance bank guarantees of Rs.20 million for Category A license and Rs.2 million and Rs.0.3 million for Category B and C licenses, respectively.

***International Long Distance Services***

The TRAI had recently issued recommendations for the opening of the international long distance market in India. The TRAI had recommended that there should be no restrictions on the number of operators and licenses may be issued to all operators who meet pre-qualification criteria in terms of financial parameters and commitment to network roll out and other licensing conditions including quality of service requirements.

Subsequently, the DoT has circulated a draft license agreement to seek comments from the public, including the potential entrants. Most of the TRAI recommendations form part of the draft license agreement. The salient features of the draft license agreement have been set forth below:

- The initial period of the license is 20 years, extendible by a further period of five years;
- The international long distance operator is required to build its own gateway facilities, i.e. gateway switches and multiplexing equipments. International long distance operators cannot access subscribers directly and are required to route their calls through national long distance service providers or other access providers;
- The international long distance operator is required to provide all types of bearer services from an integrated platform so that end to end tele-services such as voice, data, fax, video and multi-media can be provided by access providers to their customers. International long distance operators are also permitted to offer bandwidth on lease to other operators;
- The eligibility criteria for the international long distance operator is a minimum networth of Rs.250 million;
- A one time entry fee comprising a non refundable amount of Rs.250 million, performance bank guarantee for Rs.250 million guaranteeing due fulfillment of the stipulated roll out conditions and a financial bank guarantee for Rs.250 million are required to be furnished;
- In addition to the one time entry fee, international long distance service providers are required to pay an annual license fee, including universal services obligation charges, at the rate of 15% of the adjusted gross revenue;
- The international long distance operator is permitted to deploy VOIP and other data communication protocols;
- Roll out obligations: International long distance operators are required to establish minimum four point of presence, one each in the eastern, western, northern and southern regions of the country. The operators should also facilitate delivery of traffic through at least four direct routes, which are North America, the Gulf region and Europe and also any one location in South East Asia, Far East or Oceania. It should also be ensured that traffic to remaining countries is transited through one of these hubs abroad. The network should allow traffic to terminate to any global destination;
- The international long distance traffic should be routed through national long distance operators, to the international long distance operators' gateways for onward transmission to international networks. However, the access provider should be allowed to interconnect with the international long distance operator directly in situations where international long distance operators' gateway switches, and those of access provider's are located at the same station, which are the primary switching centres;
- Sharing of facilities: Where the international long distance operator is also operating as a national long distance operator, the international long distance operator has been permitted to have only one switch at a primary switching centre to perform the functions of both an international long distance operator as well as a national long distance operator. However, the operator will be required to maintain separate accounts of both the operations;
- Pricing of services should be done by the international long distance operators, keeping in view the quality of service parameters, as outlined in the recommendations of the TRAI; and
- Access providers should bill the customers for international long distance calls. However, in some cases, the international long distance operator should be permitted to bill the subscriber directly by arriving at suitable technical/commercial arrangements with access providers.

***International Bandwidth***

In March 2000, the Government announced the opening up of the international bandwidth to competition by permitting private companies to set up international gateways via satellite. In August 2000, this regime was further liberalised with permission to private ISPs to set up international gateway and landing station for connecting a submarine cable. Currently, the landing station can be used only for carrying data traffic. Further, the foreign equity participation in the landing station is restricted to 49%.

***Communications Convergence Bill 2000***

A Draft Communications Convergence Bill 2000, or Convergence Bill, has been tabled in Parliament. It is expected that the Convergence Bill will be discussed at various chambers and in Parliament before it is put to vote. If passed, the Convergence Bill will repeal a number of existing legislation relating to the telecommunications industry, including the Indian Telegraph Act of 1885, the Telegraph Wire Unlawful Possession Act, 1850, the Cable Television Networks (Regulation) Act, 1995 and the TRAI Act.

The Convergence Bill proposes significant changes in the organisation, functions and structure of the regulatory bodies functioning in the telecommunications industry in India. The Convergence Bill seeks to establish the Communication Commission of India, or CCI. The CCI will facilitate and regulate all matters relating to carriage and content of communications, guided by the principles that:

- the communication sector is to be developed in a competitive environment and for consumer interest and that market dominance in a converged environment is suitably regulated;
- communication services are made available at affordable cost to all, especially uncovered areas including the rural, remote, hilly and tribal areas;
- there be increasing access to information for greater empowerment of citizens and towards economic development;
- quality, plurality, diversity and choice of services are promoted;
- a modern and effective communication infrastructure is established taking into account the convergence of information technology, media, telecom and consumer electronics;
- introduction of new technologies, investment in services and infrastructure, and maximisation of communications facilities and services (including telephone density) are encouraged;
- equitable, non-discriminatory interconnection across various networks are promoted;
- licensing criteria are transparent and made known to the public;
- an open licensing policy allowing any number of new entrants (except in specific cases constrained by limited resources such as the spectrum) is promoted; and
- a level playing field for all operators, including existing operators, is promoted.

The functions of the CCI, as proposed in the Convergence Bill, include to:

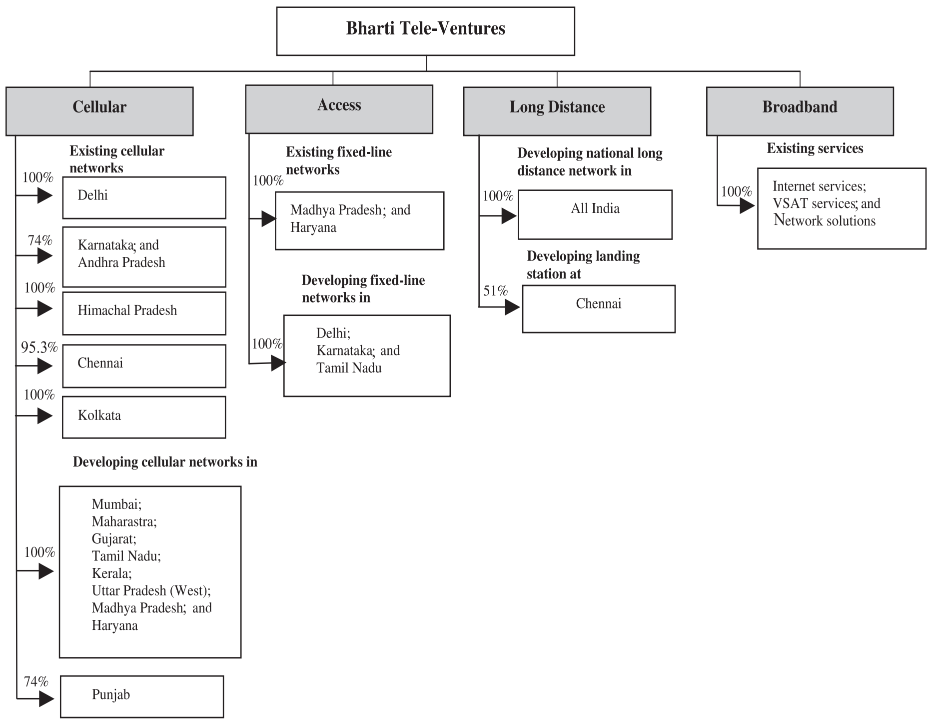
- carry out management, planning and monitoring of the spectrum for non-strategic/commercial usages;
- grant licenses and determine and enforce license conditions and determine fees (including fees for usage of spectrum) wherever required;
- determine appropriate tariffs and rates for licensed services;
- ensure that the grant of licenses will not result in eliminating competition or in one or more service providers becoming dominant to the detriment of other service providers or consumers;
- promote competition and efficiency in the operation of communication services and network infrastructure facilities;
- formulate and determine conditions for fair, equitable and non-discriminatory access to a network infrastructure facility or network service;
- take measures to protect consumer interests and promote and enforce universal service obligations;
- formulate and lay down programme and advertising codes in respect of content application services;
- formulate and lay down commercial codes in respect of communication services and network infrastructure facilities;
- take steps to regulate or curtail the harmful and illegal content on the Internet and other communication services;
- formulate and lay down codes and technical standards and norms to ensure quality and interoperability of services and network infrastructure facilities (including equipment); and
- undertake studies and publish findings on matters of importance to the consumers, service providers and the communications industry.

# BUSINESS

### *Overview*

We are India's leading private sector provider of telecommunications services based on an aggregate of approximately 1,340,000 customers as of November 30, 2001, consisting of approximately 1,048,000 cellular, 135,000 fixed-line and 157,000 Internet customers. Cellular services currently constitute the largest portion of our business in terms of total revenues and we expect that this will remain the case for the foreseeable future. We also provide fixed-line, VSAT, Internet and network solutions. We have also commenced offering national long distance services by offering data transmission services and intend to offer voice transmission services shortly. We intend to widen our range of telecommunications services to provide international bandwidth access and international voice services. We seek to capitalise on the growth opportunities that we believe are available in the Indian telecommunications market and consolidate our position to be an integrated telecommunications services provider in key markets in India, with a focus on providing cellular services. For the financial year 2001 and for the first half of the financial year 2002, our revenues were approximately Rs.8.5 billion (US$177 million) and Rs.6.2 billion (US$130 million), respectively, and our adjusted EBITDA was approximately Rs.1.9 billion (US$40 million) and Rs.1.7 billion (US$35 million), respectively. In the same period, cellular services represented approximately 87% and 85%, respectively, of our total revenues.

Our operations are organised into the following four principal business areas:




*Percentages in the above diagram represent present effective equity interest of Bharti Tele-Ventures in its subsdiaries.*

- We presently offer cellular services in six of the 22 circles using Global System for Mobile communication, or GSM, technology. As of November 30, 2001, we had a total of approximately 1,048,000 cellular customers, representing an increase of approximately 137% from approximately 442,000 cellular customers as of November 30, 2000. As of November 30, 2001, in our existing six circles, our total share of the Indian cellular subscriber base was approximately 20%, according to the COAI. Our growth has been a result of a combination of organic growth and acquisitions.

  We intend to provide cellular services in nine additional circles, for which we have entered into licenses with the DoT, by the middle of this year. Together, the 15 circles in which we currently provide or plan to provide cellular services would cover all four metropolitan areas, all five category A circles, five out of eight category B circles and one category C circle of India. As of November 30, 2001, approximately 92% of India's total number of cellular subscribers resided in our existing and proposed cellular circles, according to COAI.

- We were the first private operator of fixed-line services in India. We currently provide fixed-line services in 27 cities in the Madhya Pradesh circle, which consists of the states of Madhya Pradesh and Chattisgarh in central India. As of November 30, 2001, we had approximately 135,000 fixed-line customers, representing an increase of approximately 48% from approximately 91,000 fixed-line customers as of November 30, 2000. In December 2001, we launched fixed-line services in Haryana. We intend to provide fixed-line services in the three additional circles of Delhi, Karnataka and Tamil Nadu for which we have recently entered into licenses with the DoT. We believe that these circles have high revenue potential, particularly for carrying data traffic.

- We intend to complement our cellular and fixed-line services with national long distance services and international bandwidth access. We have entered into a license agreement with the DoT to provide national long distance services and are in the process of deploying a fiber optic network across India to provide these services to corporate and individual customers across India. We have commenced data transmission services and intend to commence voice transmission services shortly. We are also constructing a submarine cable landing station in the city of Chennai, through which we intend to provide international bandwidth access for international long distance telecommunications services. Unless the terms and conditions provided in the draft license agreement are altered in a materially adverse manner, we intend to provide international voice services when it is opened for private sector participation.

- We presently provide VSAT based data transmission services to approximately 60 Indian and multinational corporate customers as of November 30, 2001. We also provide Internet services and had approximately 157,000 dial-up and approximately 205 corporate customers as of November 30, 2001. We intend to offer secure and reliable end-to-end network solutions to our corporate customers by leveraging the bandwidth available in our subsidiaries through our nationwide fiber optic backbone that is being constructed, last mile connectivity in our existing and proposed fixed-line and cellular networks, VSATs and international bandwidth access through our gateways and landing station in India.

*Our Partners:* Our existing foreign shareholders have acquired direct and indirect equity interests in us for a total consideration exceeding US$1 billion through September 30, 2001. A substantial portion of such investments has been to subscribe to shares of Bharti Tele-Ventures and Bharti Telecom, with the balance to acquire secondary shares of these companies. The investment made by SingTel in our business is their second largest investment outside of Singapore. Our financial partner, Warburg Pincus' investment is one of their largest investments in the world. Our other partners include leading international financial investors such as International Finance Corporation, Asian Infrastructure Fund Group and New York Life Insurance.

***Awards and Recognitions:*** We have received several awards and recognitions, including:

- Identified as one of the 'leading lights of telecom' in Asia in the November 2001 Asian edition of *Teledotcom* magazine with analytical inputs from research consultants *Frost and Sullivan*;

- The leading telecommunications service provider in India in a survey of Indian companies conducted by Business World in association with Indian Marketing Research Bureau in September 2001;

- The "Techies" award from *Information Communications World*, an international business magazine, for four consecutive years (1997 to 2000) for brand excellence, network quality, customer service and value added service in our Delhi cellular circle;

  Golden Peacock National Training Award – 1999 to Bharti Cellular for our Delhi cellular operations from the Institute of Directors, a non-profit association in India committed to improving the competitiveness of Indian business by focusing on development of business leaders, for the best human resources and training practices; and

- *Ascent – Times of India* and Sodexho Pass award in 1999 from the Asia Pacific HRD conclave to Bharti Cellular for corporate excellence in the category of most innovative human resource practices.

**Business Strategy**

We believe that as a result of the recent favourable changes in Government policies leading to rapid de-regulation of telecommunications services along with high level of information technology activity and improvement in living standards in India, the Indian telecommunications industry is well positioned to achieve strong growth across all the major service areas. Our strategic objective is to capitalise on the growth opportunities that we believe are available in the Indian telecommunications market and consolidate our position to be an integrated telecommunications services provider in key markets in India, with a focus on providing cellular services.

We have developed the following strategies to achieve our strategic objective:

***Focus on maximising revenues and margins***

We plan to continue to focus on the growth of our revenues and control over our operating expenses and capital expenditures. We intend to achieve these by:

- offering better quality of services to our customers to maximise our revenues;
- implementing a modular roll-out of our cellular and fixed-line networks with an initial focus on potential high revenue generating areas;
- negotiating centrally with all our vendors to take advantage of scale and volumes;
- improving operational efficiencies through economies of scale and deployment of advanced information technology tools and solutions; and
- offering innovative solutions to our customers such as regional roaming services to our pre-paid customers.

***Capture maximum telecommunications revenue potential with minimum geographical coverage***

We plan to concentrate our financial and management resources on key markets in India that we believe have a high potential for telecommunications services. As of November 30, 2001, approximately 92% of India's total number of cellular subscribers resided in our six existing and nine proposed cellular circles, which collectively covered only 56% of India's land mass. By making selective acquisitions and focusing on key markets in India in terms of revenue potential, we believe that we are better able to utilize our resources and reduce our capital and operating costs. We believe that we can offer our services to a larger potential market in a shorter period of time. We also believe that, in addition to our Haryana circle, the three new circles in which we intend to offer fixed-line services have considerable revenue potential, particularly for data transmission. For the year ended March 31, 2001, these four circles accounted for approximately 26% of India's total direct exchange lines, or DELs, based on annual report of BSNL, and covered only 11% of India's land mass.

***Offer multiple telecommunications services to provide customers with a "one-stop shop" solution***

We currently offer cellular, fixed-line, VSAT, Internet services and network solutions. We have also commenced offering national long distance services by offering data transmission services and intend to offer voice transmission services shortly. We intend to widen our range of telecommunications services to provide access to international bandwidth and international voice services.

In markets where we intend to offer a full range of services, we will aim to provide our customers with a "one-stop shop" solution for their communication needs. We believe that this approach will enable us to meet the needs of a larger portion of our customers' telecommunications requirements, thereby enhancing our revenues and market share. By being an integrated telecommunications services provider, we believe that we can:

- meet the total telecommunications requirements of our customers by providing end-to-end connectivity;
- achieve synergies and derive cost advantages in brand building, equipment sourcing and operations due to economies of scale, reduced dependence on third parties to carry our traffic and deployment of best practices and processes across our networks; and
- protect ourselves against changes in regulation that may result in a transfer of value across types of service providers, such as changes in interconnect regulations that transfer value from fixed-line providers to national long distance operators, or vice versa.

***Position ourselves to tap data transmission opportunities***

We recently launched fixed-line services in Haryana circle and intend to provide fixed-line services in Delhi, Karnataka and Tamil Nadu circles where we believe that there is a good potential for data transmission due to the good level of software development and information technology-related businesses located in these circles. Some of the principal business activities of information technology companies in India are from overseas clients who outsource software development and other IT enabled and related activities, such as call centres, customer relationship management, medical transcription, back office processing and data entry. These services typically have large end-to-end bandwidth requirements. We also provide comprehensive end-to-end solutions for these companies' data transmission needs, such as last mile connection, national long distance transmission and we intend to provide international bandwidth access.

***Offer advanced mobile data services***

In all our existing cellular circles, we currently provide SMS and several text based services like e-mail services, airline and railway reservations and enquiry, news, entertainment and other related services. In the recent past, we have experienced growth in demand for text based mobile data services like SMS and other SMS based information services. We plan to continue to focus on improvements in these services in terms of content, speed and packaging, as we believe that these services present a strong potential for growth. We also expect that the introduction of GPRS on our cellular networks for transmission at speeds up to 115 kbps will increase the appeal of our mobile data services.

***Focus on satisfying and retaining our customers***

We believe that telecommunications services providers in India will increasingly compete on the basis of superior customer service and support facilities. We seek to ensure a high level of customer satisfaction to establish and maintain a long-term relationship with our customers. We intend to achieve this by:

- building quality networks that deploy state-of the art technology and offer the latest features, thereby providing our customers with service that is equivalent or superior to the service provided by competing operators;
- making considerable investments in state-of-the-art information technology tools and software and deploying them across our networks. For example, in our existing and proposed cellular networks, we are in the process of implementing the *Kenan* billing system from Lucent, customer relationship management and enterprise resource planning packages from Oracle, data warehousing from Oracle Express, data mining tools from SAS and fraud detection tools from Subex. Similarly, we are implementing a common billing system exclusively for our existing and proposed fixed-line networks. This billing system has already been installed in the Haryana circle and will be customized to service our other fixed-line networks, as and when services are launched. We believe we would be able to attract and retain high revenue generating customers. We should also be better able to analyse detailed information and statistics from our operations to take informed and timely actions to meet our customers' needs. We also believe that our investments in information technology will enable us to provide high quality customer care to our customers.
- ensuring high level of quality in customer care with special emphasis on our high revenue customers. For example, we have segregated our customer care for key customers under *Care Touch*, which allows us to provide them with superior customer service levels;
- communicating frequently with, and seeking feedback from, our customers to continually improve our service offerings. We regularly undertake independent market research to survey existing and potential customers about their telecommunications needs. We believe that our research and feedback helps us in early identification of market trends, which enables us to proactively satisfy our customer needs; and
- offering a loyalty and retention program targeted at our post-paid customers. For example, we currently offer our key post-paid customers in our Delhi cellular circle a usage based loyalty and retention program. These customers on the basis of their usage are divided into the sub-categories of *Select* and *Elite* customers. These customers accumulate points based on their usage which are redeemable for *AirTel* products such as dual SIM card, free SMS, subscription to *Tango* mobile data services and pre-paid connections and recharge coupons, or which are redeemable for gifts and merchandise from various retail outlets. From time to time, we also offer various other promotional and discount schemes to such customers.

Leverage strengths of our partners

We believe that we will greatly benefit from the operating and technical expertise and financial strength of our partners. SingTel is one of Asia's leading telecommunications companies and provides a comprehensive portfolio of services that include voice and data services over fixed-line, cellular and Internet platforms to its customers. We believe that SingTel's knowledge in implementing telecommunications projects combined with their international expertise will provide us with a pool of knowledge to effectively expand our business.

We also constantly benefit from advice and guidance from our other partners, particularly Warburg Pincus, who provide us with invaluable guidance in adopting international best practices, strong corporate governance and in improving management information systems.

***Emphasise on human resource development to achieve operational efficiencies***

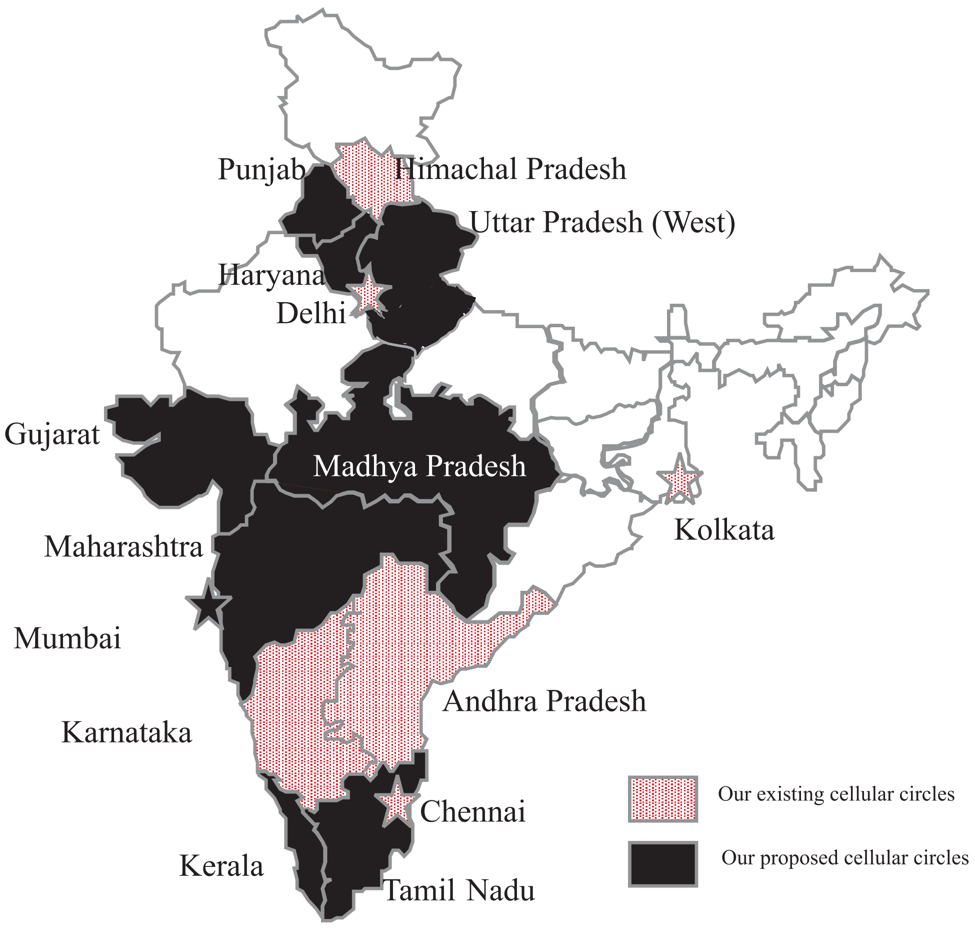
We believe that a well-trained and motivated employee base will contribute to our success. To attract, motivate and retain our employees, we offer a decentralised, transparent and professional working environment that rewards initiative and performance. We have structured our operations to enable and encourage decision-making and empowerment at all levels. We have invested in our human resources and have a performance driven reward system, which is demonstrated by our employee stock option scheme and performance linked incentives. We seek to constantly train our employees and utilise information technology to improve our operations. To reduce our operating costs, we intend to outsource certain non-technical and low value added activities to third party service providers. We believe that these policies allow our top management to focus on formulating and reviewing strategy and on consistently monitoring the profitability of our business.

***Our Competitive Strengths***

We believe that the following elements will contribute to our objective to consolidate our position to be an integrated telecommunications services provider in key markets in India, with a focus on providing cellular services, and may provide us with a solid foundation to execute our business strategy:

***Nationwide Footprint***

We currently provide cellular services in six circles and intend to expand our cellular services to cover nine additional circles by the middle of this year, for which we have entered into license agreements with the DoT. As of November 30, 2001, approximately 92% of India's total number of cellular subscribers resided in our existing and proposed cellular circles. Our cellular coverage in India is depicted below:



The key demographics of our present and proposed cellular circles and a comparison with major cellular operators in India is set forth below. The information given below is for the total market and is not representative of our or the other cellular operator's market share or network coverage.

| | | Existing licensed area | | | | Existing and proposed licensed area | | | |
|---|---|---|---|---|---|---|---|---|---|
| | India | Bharti | | Hutchison | BPL-BTAL | Bharti(2) | | Hutchison(2) | BPL BTAL(2) |
| | | Actual | % to all India | % to all India | % to all India | Actual | % to all India | % to all India | % to all India |
| Number of circles | 22 | 6 | 27% | 18% | 32% | 15 | 68% | 32% | 36% |
| Area of the circles (in square kilometers, in thousands) (4). | 3,278 | 525 | 16% | 6% | 43% | 1,848 | 56% | 20% | 43% |
| Population in the licensed areas (in millions)(5). | 1,027 | 167 | 16% | 9% | 38% | 594 | 58% | 22% | 40% |
| Market Cellular subscribers in the licensed areas (in millions) (6) | 5.2 | 2.0 | 38% | 43% | 53% | 4.8 | 92% | 61% | 69% |
| Market DELs in the licensed area (in millions) (7). | 32.4 | 9.6 | 30% | 25% | 51% | 26.8 | 82% | 43% | 57% |
| Number of vehicles in the licensed areas (in thousands)(8) | 36,132 | 9,779 | 27% | 22% | 48% | 29,025 | 80% | 39% | 56% |

(1) Comprises our six circles where we have existing operations, and our nine proposed cellular circles where we recently acquired licenses and intend to provide cellular services by the middle of this year.

(2) Consists of the circles of Delhi, Mumbai, Kolkata, Chennai, Gujarat, Andhra Pradesh and Karantaka.

(3) Constitutes the proposed merged entity of BPL and Birla Tata AT&T and the circles consist of the Delhi, Mumbai, Gujarat, Maharashtra, Andhra Pradesh, Tamil Nadu, Kerala and Madhya Pradesh.

(4) Area estimates are from National Census, 2001.

(5) Population estimates for all the circles other than the metropolitan areas are from the National Census, 2001 and are as of March 1, 2001. Population estimates for the Uttar Pradesh (West) circle is estimated to be 37% of the total population of the state of Uttar Pradesh.

(6) Based on data released by the COAI on the total number of cellular subscribers in the circles as of November 30, 2001.

(7) Based on data available from BSNL's annual report for 2000-2001 on the total number of DELs in the circles as of March 31, 2001.

(8) Vehicles comprise four wheeler and two wheeler non-commercial vehicles and are derived from data released by the Motor Transport Statistics of India as of March 31, 1997 in its most recent report.

We also provide fixed-line services in the Madhya Pradesh circle, which is centrally located in India, and is the only circle sharing its boundaries with eight other circles. In addition, we launched our fixed-line services in the Haryana circle in December 2001. We are also developing fixed-line networks in the three additional circles of Delhi, Karnataka and Tamil Nadu and are deploying a fiber optic network across India to provide national long distance voice and data services.

We believe that our large footprint in India and a wide range of telecommunications services will provide us with competitive advantages, which may enable us to:

- provide a "one-stop shop" option for our key customers;
- capture a greater share of the corporate market which demands high quality services offered over an extensive network;
- enter into suitable arrangements with network equipment vendors based on our combined purchasing power;
- derive economies of scale by spreading fixed costs over a greater number of customers; and
- attract and retain top management talent in the telecommunications industry in India.

***Focus on telecommunications***

We are only engaged in providing telecommunications services in India. By focussing our resources on one industry, we believe that our senior management will have the ability to anticipate industry trends and capitalise on new telecommunications-related business opportunities. For example, we foresaw the emerging demand for bandwidth in India and built a fiber optic network of over 3,600 kilometers across the Madhya Pradesh circle, which is centrally located in India. We believe that our presence in the Madhya Pradesh circle will facilitate better interconnection with our proposed national long distance network across India and may reduce the time to market our national long distance services. We also believe that our industry focus may foster greater consumer confidence because our customers may associate our brands with a single high-quality service rather than a broad spectrum of unrelated product offerings.

***Brand name recognition***

We believe that we enjoy strong brand name recognition and have a reputation for offering high quality services to our customers. We believe that our brands are key to our strong market position, and help us attract and retain customers. We believe that *Bharti,* our corporate brand, *AirTel,* our brand for post-paid products, *Magic,* our pre-paid (cellular) brand, *Tango,* our brand for mobile data and *Mantra Online,* our brand for ISP services, are widely recognized and identified with the services that we offer. We have recently launched *Youtopia,* a brand targeted at the youth segment in our Delhi cellular circle, *TouchTel*, our brand for fixed-line services and *IndiaOne*, our brand for national long distance services.

***Quality management team with vision and proven execution skills***

We believe that we have a strong management team with a proven ability to successfully plan and execute our business strategy. A key reason for our rapid growth since we launched our services in 1995 has been our ability to proactively identify new opportunities and capitalise on them. We have consistently devised strategies that factor in the fast changing Indian telecommunications market and have followed them with strong execution skills by:

- delivering organic growth to our businesses;
- acquiring and successfully integrating additional cellular circles into our businesses; and
- winning eight additional cellular licenses in the recent competitive bidding process, more than any other cellular operator, which permits us to provide services in key Indian markets.

Members of our top management team have been conferred with several awards and recognitions. Our Chairman and Managing Director has been recognised as one of the stars of Asia for 2001, one of the top entrepreneurs in the world for 2000 by *Business Week*, and entrepreneur of the year 2000 by Ernst & Young for the Information, Communications, and Entertainment sector. Our Joint Managing Director has been awarded the CFO of the Year 2001 award for excellence in “Mergers and Acquisitions” by the Economist Intelligence Unit in association with American Express.

***Strong strategic and financial partners***

Our existing foreign shareholders have acquired direct and indirect equity interests in us for a total consideration exceeding US$1 billion through September 30, 2001. A substantial portion of such investments have been to subscribe to shares of Bharti Tele-Ventures and Bharti Telecom, with the balance to acquire secondary shares of these companies.

SingTel is one of our key strategic partners and its position as one of Asia’s leading telecommunications service provider gives us access to valuable knowledge in implementing telecommunications projects and to their international expertise and managerial resources. Our other partners include international financial investors such as Warburg Pincus, International Finance Corporation, the Asian Infrastructure Fund Group and New York Life Insurance.

**Cellular Division**

***Overview***

The Indian cellular market, according to the COAI, has increased from approximately 1.5 million subscribers as of November 30, 1999 to approximately 5.2 million subscribers as of November 30, 2001, representing a compounded annual growth rate of approximately 86% during this period. Despite this rapid growth, the cellular penetration rate in India, at approximately 0.5% as of November 30, 2001, is significantly lower than the average cellular penetration rate in other Asian and international markets. The number of cellular subscribers in India is expected to show rapid growth over the next four years. For example:

- the COAI estimates that the number of cellular subscribers will grow to approximately 50 million by 2005; and
- Gartner estimates that the number of cellular subscribers will grow to approximately 31 million by 2005.

We believe that the demand for cellular services in India will continue to grow rapidly as a result of the following factors:

- lower tariffs and handset prices over time;
- growth in pre-paid customer category;
- greater economic growth and continued development of India’s economy;
- higher quality cellular networks and services; and
- greater variety and usage of value added services.

We presently provide cellular services in six circles in India. We acquired the licenses for Delhi and Himachal Pradesh circles during the first phase of liberalisation and commenced operations in these circles in November 1995 and December 1996, respectively. Subsequently, we acquired operational control in the Karnataka and Andhra Pradesh circles in November 1999, an equity interest in the Chennai circle in August 2000 and an equity interest in the Kolkata circle in July 2001. As a result of these acquisitions, we currently provide cellular services in three of the four metropolitan areas of Delhi, Chennai and Kolkata and the three circles of Karnataka, Andhra Pradesh and Himachal Pradesh. As of March 1, 2001, these regions had a combined population of approximately 167 million, which constituted approximately 16% of India’s estimated population. The total cellular subscribers market in these circles was approximately 1,999,000 subscribers as of November 30, 2001, representing approximately 38% of India’s total cellular subscribers market as of such date.

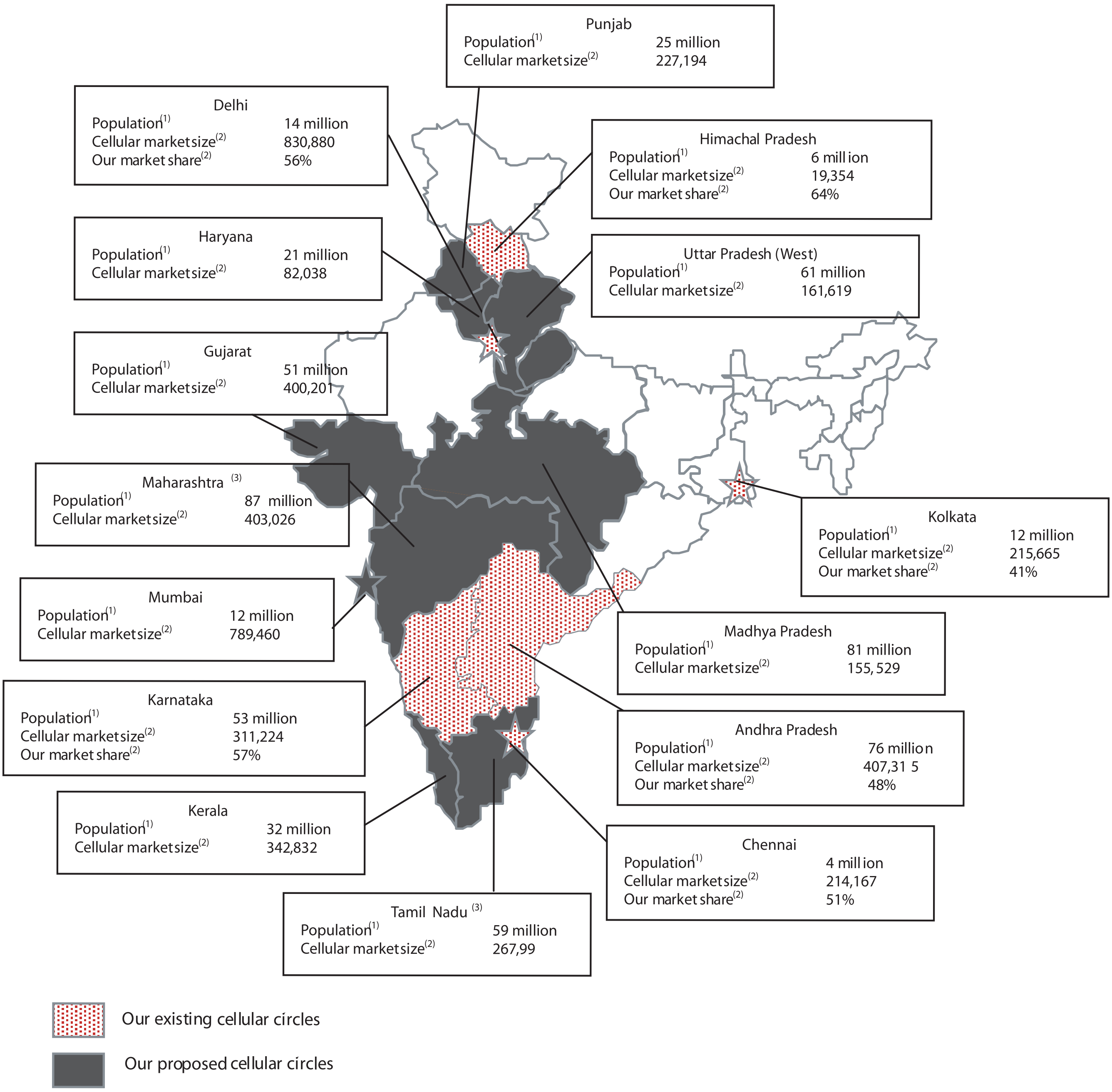
We have recently entered into license agreements with the DoT to provide cellular services in the metropolitan area of Mumbai and the circles of Maharashtra, Gujarat, Tamil Nadu, Kerala, Madhya Pradesh, Uttar Pradesh (West) and Haryana pursuant to a bidding process. The DoT has also restored our Punjab license. For further details on the Punjab license, see “Outstanding Litigations and Material Developments”.

Our 15 existing and proposed circles together comprise all four metropolitan areas, all five category A circles, five out of the eight category B circles and one category C circle of India. As of November 30, 2001, approximately 92% of India’s total cellular subscriber market resided in our six existing and nine proposed cellular circles, which collectively covered only 56% of India’s land mass.

We intend to consolidate all our existing and future cellular businesses in Bharti Cellular, our wholly-owned subsidiary. For further details, see “Our History and Corporate Structure”.

### *Our Cellular Footprint*

The diagram below depicts the location of, and provides certain information for, our existing and proposed cellular circles in India:




Source:

(1) Population estimates are as per National Census, 2001 and are as of March 1, 2001. The population for Uttar Pradesh (West) is approximately 37% of the total population for the state of Uttar Pradesh.

(2) Cellular subscriber statistics are as of November 30, 2001 and are based on data released by COAI. Cellular market size comprises the total number of cellular subscribers of all the service providers in a circle.

(3) Demographics of Maharashtra and Tamil Nadu do not include demographics of state capitals (metros) Mumbai and Chennai respectively.

The growth in our cellular business has been through a combination of organic growth and acquisitions of additional licenses and has been summarized below. The information given below is for the total market and is not representative of our market share or network coverage.

| | As of March 31, | | | As of November 30, |
|---|---|---|---|---|
| | 1999(1) | 2000(2) | 2001(3) | 2001(4) |
| Number of cellular licenses held by us | 2 | 4 | 5 | 15 |
| Total cellular subscribers in India (in millions) | 1.12 | 1.88 | 3.58 | 5.22 |
| Market cellular subscribers in our license areas(5) (in millions) | 0.21 | 0.57 | 1.28 | 4.83 |
| Percentage of market cellular subscribers to total cellular subscribers in India | 18% | 30% | 36% | 92% |

(1) Comprises the circles of Delhi and Himachal Pradesh where we have existing operations.

(2) Comprises the circles of Delhi, Himachal Pradesh, Karnataka and Andhra Pradesh where we have existing operations.

(3) Comprises the circles of Delhi, Himachal Pradesh, Karnataka, Andhra Pradesh and Chennai where we have existing operations.

(4) Comprises our six circles where we have existing operations, and our nine proposed circles where we recently acquired licenses and intend to provide cellular services by the middle of this year.

(5) Based on data released by the COAI on the total number of persons subscribing to cellular services in our licensed areas.

***Cellular Strategy***

Our strategic objective for our cellular business is to rapidly become the leading provider of cellular services in India. To achieve this strategic objective, we plan to:

- capture maximum telecommunications revenue potential with minimum geographical coverage to maximize our revenues and margins;
- build high quality cellular networks by deploying state-of-the-art technology to offer superior services;
- use the experience we have gained from operating our existing cellular networks to develop and operate other cellular networks in India and to reduce the time to market such services. For example, we recently re-organised the management structure of our cellular business to facilitate implementation of best practices and information sharing across all our existing and proposed circles;
- attract and retain high revenue generating customers by providing competitive tariffs, offering high quality customer support, proactive retention programs and roaming packages across our 15 cellular circles;
- manage pro-actively our churn by using data mining tools to analyse customer preferences; and
- focus on value added services, such as SMS and other mobile data services, to enhance our revenues.

***Our Current Areas of Operations***

*Delhi.* Our Delhi network covers a license area that includes the state of Delhi and the neighbouring towns of Faridabad and Gurgaon in the state of Haryana, and Ghaziabad and Noida in the state of Uttar Pradesh. We have a 20-year license to provide cellular services in our Delhi circle, valid until November 2014, and which is extendible by additional periods of 10 years. In addition to being India's political capital, Delhi has the highest per capita income, the highest installed fixed-line penetration rate, and the highest population density among the 29 states of India. Delhi has a high concentration of service and manufacturing industries and houses the Central Government, the head offices for many major public sector enterprises, embassies and various government missions and development agencies. We believe that these factors create high roaming revenue potential from cellular subscribers who roam into our network from other circles. As of November 30, 2001, we had 465,278 customers in Delhi, giving us a market share of approximately 56% in this circle.

*Karnataka and Andhra Pradesh.* Located in southern India, Karnataka is a major business centre and several information technology companies are based in and around its capital, Bangalore. Andhra Pradesh is adjacent to Karnataka and several information technology companies are based in and around its capital, Hyderabad. Information technology companies are typically high-volume users of telecommunications services, particularly for data transmission. We offer cellular services in these circles pursuant to 20-year license, valid until 2016 for Karnataka and until 2015 for Andhra Pradesh, each of which is extendible by additional periods of 10 years. As of November 30, 2001, we had 177,810 and 195,054 customers in Karnataka and Andhra Pradesh, respectively, giving us a market share of approximately 57% and 48%, respectively, in these circles.

*Chennai.* We provide cellular services in Chennai (the capital city of the southern state of Tamil Nadu) and in the adjoining areas of Mahabalipuram, Minjur and Maraimalai Nagar. Chennai is a major centre for information technology companies and foreign multinational corporations. Our network is operated pursuant to a 20-year license, valid until November 2014, and which is extendible by additional periods of 10 years. As of November 30, 2001, we had 110,032 customers in Chennai, giving us a market share of approximately 51% in this circle.

*Himachal Pradesh.* Located in northern India, Himachal Pradesh is one of India's most mountainous states and is a popular tourist destination, particularly for residents of Delhi and other north Indian states. Our network is operated pursuant to a 20-year license, valid until November 2015, and which is extendible by additional periods of 10 years. As of November 30, 2001, we had 12,462 customers in Himachal Pradesh, giving us a market share of approximately 64% in this circle.

*Kolkata.* Kolkata is the capital city for the eastern state of West Bengal. Several domestic and multinational companies are based in Kolkata and it is a major centre for trade and commerce in eastern India. Our network is operated pursuant to a 20-year license, valid until November 2014, and which is extendible by additional periods of 10 years. As of November 30, 2001, we had 87,570 customers in Kolkata, giving us a market share of approximately 41% in this circle.

We have grown as a result of both organic growth and acquisitions of circles completed by us. The following table sets forth the growth in the number of our cellular customers over the last three years.

| | As of November 30, | | | Compound Annual Growth Rate |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | November 30, 1999 to November 30, 2001 |
| Cellular customers(1) (2) ............ | 238,095 | 442,108 | 1,048,206 | 110% |

(1) Cellular customers statistics are based on data released by the COAI.

(2) We acquired the Karnataka and Andhra Pradesh cellular circles in November 1999, the Chennai cellular circle in August 2000 and the Kolkata cellular circle in July 2001.

***Our Proposed Areas of Operations***

In September 2001, we entered into license agreements with the DoT to provide cellular services in the eight circles of Mumbai, Maharashtra, Gujarat, Madhya Pradesh, Haryana, Uttar Pradesh (West), Tamil Nadu and Kerala. All these licenses are for a period of 20 years, valid until August 2021, and are extendible by additional period of 10 years. In September 2001, the DoT also restored the Punjab license in our favour. The Punjab license is for a period of 20 years, valid until 2015, and is extendible by additional periods of 10 years. We expect to commence providing cellular services in these nine proposed circles by the middle of this year.

*Mumbai.* Mumbai is the financial and commercial capital of India and one of the largest cities in the world in terms of population. Mumbai is among the highest per capita income cities in India. Several leading financial institutions, regulatory agencies, multinational corporations, service organisations and leading conglomerates are located in Mumbai. The concentration of commercial activity and service industry in Mumbai has led to a strong demand for telecommunications services, both voice and data.

*Maharashtra.* Surrounded by Gujarat, Madhya Pradesh, Andhra Pradesh and Karnataka, Maharashtra is a prominent state in Western India. Maharashtra is one of the most industrialised states in India and several industries including sugar, pharmaceuticals, petrochemicals, heavy chemicals, electronics, automobiles, engineering, food processing and plastics are located in the state. Maharashtra has attracted high amount of investment from Indian and foreign companies in the past. Among states, Maharashtra has among the higher literacy rates and is a centre for learning and research in India.

*Gujarat.* Gujarat is located adjacent to Maharashtra and is also a prominent industrialised state in the country. Several companies in the chemicals and petrochemicals, pharmaceuticals and textiles sectors are based in Gujarat and the largest grass-root level petroleum refinery in India is located in the state. Gujarat also has one of the busiest ports in India and handled a high proportion of India's exports for the year ended March 31, 2001.

*Haryana.* Haryana is adjacent to Delhi and is surrounded by the states of Himachal Pradesh, Uttar Pradesh, Rajasthan and Punjab. The city of Chandigarh, which is a union territory, is a joint capital city of the states of Haryana and Punjab. Haryana is also an emerging centre in north India for IT enabled services such as call centres, which are typically high-volume users of telecommunications services.

*Punjab.* Punjab is among the highest per capita income states in India. Punjab has emerged as a leading producer of agricultural products in India and several multinational corporations have invested in Punjab in agricultural-related businesses. Punjab is also emerging as a base for the production of engineering goods, pharmaceuticals, leather goods, food products, textiles, electronic goods, sugar, machine tools, hand tools, agricultural implements, sports goods, paper and paper packaging materials.

*Uttar Pradesh (West).* Uttar Pradesh (West) is a circle carved out of the north Indian state of Uttar Pradesh by the DoT and has been classified as a Category B cellular license area. It is a popular tourist location in northern India with several holy shrines and pilgrimage locations. The state is home to several industries.

*Madhya Pradesh.* Located in central India, Madhya Pradesh has a total area of approximately 443,000 square kilometers and has substantial mineral resources, making it a centre for the aluminum, chemical and iron and steel industries. Several industries in the electronics, telecommunications, petro-chemicals, food processing and automobiles sectors are also located in Madhya Pradesh.

*Kerala.* Located in south India, Kerala is rich in minerals, marine products and agricultural products. A large section of the former population of Kerala lives outside India as non-resident Indians and has contributed to a relatively high foreign exchange inflow in this state. The state has the highest density of science and technology personnel and the highest literacy rate in India.

*Tamil Nadu.* Located in southern India, Tamil Nadu is surrounded by Andhra Pradesh, Karnataka and Kerala. Tamil Nadu has several industrial undertakings engaged in cotton, sugar, leather, textiles, engineering and petrochemicals sector. The state has a large number of professionals and has witnessed a rapid growth in the software industry in the past few years.

In addition to entering into licenses with the DoT for our eight additional circles and the restoration of our Punjab license, we have taken the following steps towards commencing operations in these circles and the integration of the proposed circles with our existing circles:

- completed network planning activities and implementing the same;
- entered into rate contracts and, for some circles, placed purchase orders with vendors, including Siemens, Motorola and Ericsson, for the supply of telecommunications equipment and network design;
- commenced recruitment activities and internal transfer of employees for new areas of operations;
- entered into agreements with the Escorts group, a provider of cellular services in the Haryana, Kerala, Uttar Pradesh (West), Himachal Pradesh and Punjab circles, to share cellular infrastructure in order to reduce costs and speed the launch date for our services;

- identified, and in some cases acquired, locations for the main switching centres and cell sites; and
- selected a common billing system, customer relationship and enterprise resource planning packages and other office systems and controls for our existing and proposed cellular networks.

We have also reorganised the management structure of our cellular business on a regional basis in an effort to better capture revenue and cost synergies. We have appointed chief executive officers and chief operating officers and other key functional heads in each of the circles. For further details, see “Management”.

***Products and Services***

We believe that we offer reliable and high quality cellular services in India. We provide both pre-paid and post-paid services in all our circles. In our Delhi, Karnataka, Andhra Pradesh, Chennai and Himachal Pradesh circles, our post-paid and pre-paid services are branded as *AirTel* and *Magic,* respectively. In our Delhi circle, we have also recently launched *Youtopia*, a brand targeted at the youth segment for *AirTel* post-paid services. In our Kolkata circle, we offer post-paid services under the *AirTel* brand and intend to rebrand our pre-paid services with the *Magic* brand shortly. We intend to launch our cellular services under the *AirTel* and *Magic* brands in all our proposed circles.

*Value Added Services*

We offer our customers a wide range of value added services. We believe that value added services are important to our business as they have higher revenue potential, create differentiating factors against our competitors, increase customer loyalty and increase usage and satisfaction. We offer various value added services in our Delhi cellular network, such as:

- *Information Services*. A wide variety of information is available on a customer’s handset upon demand, including, news, current events, stock market quotes, sports scores and astrology readings.
- *Short Message Service, or SMS*. Customers can exchange text messages that are up to 160 characters in length.
- *Voice Mail*. In addition to voice message recordings, our voice mail package offers advanced features such as SMS notification of messages received.
- *Fax Mail*. Customers are able to receive, store and forward fax messages through their handsets, freeing them from the need to own their own fax machine or to be near a particular fax machine.
- *Mobile Banking*. Permits customers to perform secure transactions such as balance inquiries, transfers and bill payment from their handsets. These services are provided under tie-ups with major banks such as ICICI Bank and HDFC Bank.
- *Calling Services*. These services include conference calls, caller line identification, caller line restriction, call divert, call hold, call waiting, conditional call forwarding and call barring.
- *WAP enabled Internet access*. Customers can access multiple content sources including data from Internet on their handsets.

We are in the advanced stages of developing the following value added services for our customers in our Delhi cellular network:

- *Single Personal Number.* Allows customers to have one number for their cellular and fixed-line telephone, irrespective of its location. The customer also has the option of screening the incoming calls by providing selected recipients with a code, which permits calls to reach the customer’s handset while calls placed without usage of the code are directed to a voicemail system.
- *Priority call routing.* Permits assigning different levels of priority to calls to provide a higher grade of service for urgent or emergency calls.
- *Dual SIM*. Permits customers to have two mobile numbers on one SIM card, wherein they could switch from one call to the other.
- *Free phone service.* Permits our post-paid customers to call certain merchant establishments on a unique toll-free number.

We currently offer value added services similar to those offered in our Delhi circle in our existing cellular circles and plan to offer the proposed value added services in our other existing and proposed cellular circles.

*Roaming Services*

We offer roaming services, primarily to our post-paid cellular customers, which enables them to make and receive calls while they are not within their home cellular networks. Such customers are categorised as out-roamers. Similarly, we provide roaming services to customers from other circles when they visit our service areas. Such customers are categorised as in-roamers. We have entered into roaming agreements with other cellular services providers and provide our customers with domestic and international roaming capabilities. Our customers can roam in all the Indian cellular networks and in most of the cellular networks in the world that use GSM technology. We were the first cellular services provider in the country to offer roaming services to pre-paid customers when we recently launched roaming services between the Karnataka and Andhra Pradesh circles. We plan to offer similar services to our pre-paid customers in other circles. For our pre-paid customers in the Delhi circle, we have recently launched incoming roaming services, which permits them to receive calls at all places in India where we have roaming arrangements. We also intend to leverage our nationwide footprint to offer innovative roaming solutions to our customers and retain them on our networks when they travel out of their home network.

Our roaming services have been created within the framework of the GSM technical standard and the policies and procedures set forth by the GSM Association. After technical and billing tests are successfully concluded, the connection is opened commercially and each party’s customers may use the other party’s network.

As of November 30, 2001, approximately 17% of our total customers in Delhi had opted for roaming services and we also had approximately 76,300 in-roamers in Delhi. In our other cellular circles – Chennai, Karnataka, Andhra Pradesh, Himachal Pradesh and Kolkata – approximately 10%, 11%, 5%, 23% and 7%, respectively, of our total customers as of November 30, 2001 had opted for roaming services. For the year ended March 31, 2001, our net revenues from roaming services (which is our out-roaming revenues and in-roaming revenues as reduced by the payments made to other cellular operators) consisted mainly of revenues from in-roamers.

***Customers***

As of November 30, 2001, we had approximately 1,048,000 cellular customers, of which approximately 465,000 customers were located in our Delhi circle. We expect our customer base in all our cellular circles to grow by:

- expanding coverage and capacity of the networks in our proposed circles and existing circles;
- introducing innovative marketing campaigns which leverage consumer awareness on the benefits of mobile telecommunications and our established brand names, *AirTel* and *Magic*; and
- offering new and innovative value added services and tariff structures to respond to the needs of various target customer segments.

We plan to proactively expand our cellular markets and enhance our market share by offering packages targeted at certain customer segments and by offering flexible tariff packages. We believe that our post-paid customers consist mainly of corporate and high airtime usage professionals. We have sought to attract corporate customers to our post-paid services who have high airtime usage requirement and are less sensitive to price. Pre-paid customers consist mainly of low airtime usage customers. We believe the pre-paid market represents a large and an important growing market opportunity, which may lead to a mass appeal for our cellular services, especially with students and other low airtime usage customer categories.

The following table sets forth certain operating data relating to the periods during which we provided services in our circles as indicated below:

| Circle | As of March 31, | | | As of November 30, |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2001 |
| **Delhi** | | | | |
| Our customers(1) | 118,833 | 184,110 | 328,390 | 465,278 |
| Our approximate market share | 55% | 55% | 59% | 56% |
| **Karnataka** | | | | |
| Our customers(1) | | 47,940 | 108,052 | 177,810 |
| Our approximate market share | | 37% | 49% | 57% |
| **Andhra Pradesh** | | | | |
| Our customers(1) | | 46,393 | 91,077 | 195,054 |
| Our approximate market share | | 44% | 44% | 48% |
| **Chennai** | | | | |
| Our customers(1) | | | 56,124 | 110,032 |
| Our approximate market share | | | 45% | 51% |
| **Kolkata** | | | | |
| Our customers(1) (2) | | | | 87,570 |
| Our approximate market share | | | | 41% |

(1) Numbers of cellular subscribers are for the respective periods and are based on the data released by the COAI.

(2) In July 2001, we acquired a 100% beneficial equity interest in Bharti Mobitel, the cellular services provider in the Kolkata circle.

*Delhi circle*. We had approximately 465,000 customers as of November 30, 2001, of which approximately 256,000 were pre-paid customers. For the year ended March 31, 2001, our Delhi operations contributed approximately 56% of our total revenues.

*Karnataka and Andhra Pradesh circles*. Prior to the acquisition of these circles in November 1999, we believe that the potential of these circles was not fully utilized and it suffered from slow network expansion and poor quality of service. Since our acquisition of the Karnataka and Andhra Pradesh circles, we have focused our efforts on increasing the number of our customers and network usage by expanding network coverage, introducing the *AirTel* and *Magic* brands in Karnataka and Andhra Pradesh, installing a new billing system and increasing the range of our value added services and quality of services to our customers.

Since our acquisition of the Karnataka circle, our market share has increased from approximately 41% as of November 30, 1999 to approximately 57% as of November 30, 2001. Since our acquisition of the Andhra Pradesh circle, our market share has increased from approximately 44% as of November 30, 1999 to approximately 48% as of November 30, 2001. In Karnataka, we provided cellular services in 58 cities and had approximately 178,000 customers as of November 30, 2001, of which approximately 79,000 customers were pre-paid customers. In Andhra Pradesh, we provided cellular services in 65 cities and had approximately 195,000 customers as of November 30, 2001, of which approximately 143,000 were pre-paid customers.

*Chennai circle*. Since our acquisition in August 2000, our customer base in the Chennai circle has increased from approximately 33,000 customers as of August 31, 2000 to approximately 110,000 customers as of November 30, 2001, of which approximately 68,000 were pre-paid customers. This has resulted in an increase in our market share from approximately 43% as of August 31, 2000 to approximately 51% as of November 30, 2001.

*Himachal Pradesh circle.* In Himachal Pradesh we provided cellular services in 36 cities and had approximately 12,500 customers as of November 30, 2001, of which approximately 4,000 were pre-paid customers. Due to the small size of this region, revenues from our Himachal Pradesh circle have not been material and are not expected to make significant contributions to our total revenues for the foreseeable future.

*Kolkata circle*. We acquired the Kolkata circle in July 2001. In our Kolkata circle, we had approximately 88,000 customers as of November 30, 2001, of which approximately 52,000 were pre-paid customers. While we expect the growth in our customer base in this circle to be driven largely by the growth in the pre-paid category, we are also taking initiatives to increase growth in our post-paid customer base.

***Churn***

Our average monthly churn rate for a period is the rate of customer disconnections net of reconnections. This rate is calculated by dividing deactivations less reconnections by the average number of customers during that period (the average of the number of customers on the first and last days of the respective period) divided by the number of months in that period. Our average monthly churn rate for the year ended March 31, 2001 and the eight-month period ended November 30, 2001 for our cellular circles are set forth below:

| | For the year ended March 31, 2001 | | | For the eight months ended November 30, 2001 | | |
|---|---|---|---|---|---|---|
| **Circle** | **Pre- paid churn (%)** | **Post- paid churn (%)** | **Total churn (%)[1]** | **Pre- paid churn (%)** | **Post- paid churn (%)** | **Total churn (%)[1]** |
| Delhi | 8.7 | 2.5 | 4.5 | 7.4 | 3.5 | 4.7 |
| Chennai[3] | 3.0 | 2.5 | 3.6 | 9.4 | 3.7 | 7.0 |
| Karnataka | 6.2 | 4.7 | 5.0 | 11.2 | 3.9 | 6.6 |
| Andhra Pradesh | 5.6 | 5.0 | 4.8 | 6.2 | 9.8 | 6.6 |
| **Total average churn[2]** | **7.8** | **3.5** | **4.7** | **7.9** | **4.5** | **5.7** |

(1) Total churn is calculated independently of the percentage pre-paid and post-paid churn rates given above and is based on the total customer base comprising pre-paid and post-paid customers. Total churn is net of transfers between pre-paid and post-paid customer categories.

(2) Total average monthly churn is the average churn for the periods mentioned above in the post-paid or pre-paid categories across all specified circles. For each circle, we sum the total disconnections net of reconnections in each category. The sum arrived at is divided by the average number of customers during that period (the average of the number of customers in each category on the first and last days of the respective period) divided by the number of months in that period.

(3) Churn in the Chennai circle for the year ended March 31, 2001 is being considered post acquisition since August 2000.

We have historically experienced higher churn rates in our pre-paid category than in our post-paid category, and we expect this trend to continue. We believe that our churn rates are in line with industry trends. We believe that a high churn rate in our pre-paid category is due in part to the short validity of the pre-paid card, non-renewal of the card by customers on expiry of the validity period and in part to usage by tourists or other short duration visitors who subscribe to pre-paid services for limited usage. We believe that churn in the post-paid category is due in part to customer movement across regions for professional or personal reasons and in part to network and customer care related issues.

Presently, the direct cost of adding a new customer, which consists principally of a commission expense, is substantially offset by the initial activation charges recovered from our customers. We have, however, in the past waived all or portion of the activation charges as short-term promotional schemes in select markets and for key customers. Therefore, there can be no assurance that the direct cost of adding new customers will be offset in whole by the activation expense we charge our customers.

We are actively seeking to reduce the churn rate in our customer base by:

- improving the quality of our services by increasing network capacity, coverage and increasing the range of value added services;
- offering a loyalty and retention program targeted at our post-paid customers. For example, we currently offer our key post-paid customers in our Delhi cellular circle a loyalty and retention program under which customers, on the basis of usage, are divided into two categories – *Select* and *Elite*. These customers accumulate points based on usage, which are redeemable for the *AirTel* range of products such as subscription for *Tango* mobile data services, dual SIM, free SMS, and pre-paid services and recharge coupons, or which are redeemable for gifts and merchandise from various retail outlets. From time to time, we also offer various other promotional and discount schemes to such customers;
- utilising information technology tools to increase interaction with customers and offer superior customer service; and
- dedicating a team to address the needs of customers who decide to terminate their connection so that proactive steps may be taken to retain them.

***Tariffs***

Although we have flexibility in setting our tariffs, we are required to offer our customers the standard tariff package prescribed by the TRAI. The standard tariff package specifies the following charges:

- refundable, non-interest bearing security deposit of Rs.2,000;
- one-time activation fee of Rs.1,200;
- monthly rental of Rs.475 from customers in the Delhi, Chennai and Kolkata circles, and Rs.500 from customers in the Karnataka, Andhra Pradesh and Himachal Pradesh circles; and
- airtime usage charges for all outgoing and all incoming calls at Rs.4 per minute for the Delhi, Chennai and Kolkata circles, and Rs.4.50 per minute for the Karnataka, Andhra Pradesh and Himachal Pradesh circles, to be billed on a 30 seconds pulse.

These tariffs exclude a 5% service tax and additional access charges collected for outgoing calls on behalf of the fixed-line operator at local call rates, on behalf of the national long distance operator at national long distance call rates, and on behalf of VSNL at international long distance call rates.

We actively pursue pricing strategies intended to increase our customer base and increase airtime usage by offering volume usage discounts for our post-paid customers, and short-term promotion schemes. Our ability to continue to provide discounts and our general pricing strategy in the future will depend in large part on the market conditions in effect from time to time and the degree of competition from other cellular services providers in our areas of operations.

We have significantly reduced our tariffs in the Delhi circle since January 2001. In addition to the TRAI prescribed tariff plan, we currently offer other tariff plans to our post-paid cellular customers in Delhi. These tariff plans comprise a refundable, non-interest bearing security deposit of Rs.1,500, one time activation fee of Rs.999 and varying monthly and airtime charges as follows:

| Charges | AirTel Standard | Dream Plan | Sweet 99 | Happy Days | Perfect Match | Talkers Delight | Just One | Youth Plan | Welcome |
|---|---|---|---|---|---|---|---|---|---|
| Monthly subscription fee | Rs.475 | Rs.295 | Rs.395 | Rs.400 | Rs.400 | Rs.400 | Rs.495 | Rs.249 | Rs.295 |
| Minimum monthly airtime commitment | - | - | - | - | Rs.300 | Rs.800 | - | - | |
| Airtime charges | | | | | | | | | |
| - Outgoing | Rs.4 per minute – 9 am to 8 pm on weekdays Rs.1.50 per minute(1) from 8 pm to 9 am and at all times on Sundays and national holidays | Rs. 2.30 per minute | Rs. 1.98 per minute | Rs. 285 per minute | Rs. 178 per minute | Rs. 1.48 per minute | Rs. 3.95 per minute | Rs. 2.80 per minute Rs. 0.50 per minute 10 pm - 8 am | Rs. 1.78 per minute Rs. 0.50 per mimute 10 pm - 8 am |
| - Incoming | Same as outgoing | Rs. 2.30 per minute | Rs. 1.98 per minute | Rs. 1.60 per minute | Rs. 1.78 per minute | Rs. 1.48 per minute | Re. 1 per minute | Rs. 2.80 per minute Rs. 0.50 per minute 10 pm - 8 am | Rs. 1.78 per minute Rs. 0.50 per minute 10 pm - 8 am |

(1) Customers are billed on a 60 second pulse only for this part of this tariff plan.

Except for the AirTel Standard Plan described above, we bill our customers on a 30 second pulse under all of the other tariff plans.

Under certain of these plans, we also offer our customers the option of calling any specified number free of airtime charges and also offer discounts on airtime for outgoing and incoming calls on Sundays and national holidays. These options are available on payment of a fixed amount per month.

For our pre-paid customers in our Delhi circle, we offer cards with varying validity periods and recharge options. We do not receive any security deposit or monthly rental from pre-paid customers, however, new customers are charged a one-time activation fee and a processing charge is levied on recharge coupons, which covers the commissions payable to our distributors.

A monthly fee is charged for most of our value added services. For example, we levied the following charges in our Delhi circle for the services specified below:

- *Itemized billing* - a fixed monthly fee is charged, except for customers subscribing to national or international long distance service, for whom the service is available free of charge;
- *Caller line identification* - we charge a fixed monthly fee to our post-paid customers. Our pre-paid customers are not charged for this service;
- *Voice mail services* - we provide an option to our post-paid customers to either opt for a fixed monthly charge with no per message retrieval charges or a fixed charge per message retrieved. For pre-paid customers we have a fixed charge per message retrieved; and
- *SMS services* - we have a fixed charge per outgoing message and do not charge for incoming messages.

In our other cellular circles, we also offer the TRAI prescribed standard tariff package and other tariff packages designed to suit the profiles of customers in each of those cellular circles.

We have entered into roaming arrangements with other cellular operators to provide our customers with cellular services in areas not covered by our networks. For domestic roaming, we charge Rs.10 per minute and applicable fixed-line charges from in-roamers for their incoming and outgoing calls. We charge a fixed monthly fee and 10% of the sum of airtime charges and applicable fixed line charges (actual usage) from out-roamers for their incoming and outgoing calls.

For international roaming, we charge a fixed rate per minute, applicable fixed-line charges and 15% of actual usage from in-roamers for incoming and outgoing calls. We charge a fixed monthly fee and 10% of actual usage from out-roamers for their incoming and outgoing calls.

We bill our post-paid customers on a monthly basis in arrears for airtime and in advance for fixed monthly charges. Customers have the option to make payment at a bank, by mail, credit card or drop-in payment at one of our collection boxes.

***Interconnection***

A substantial number of outgoing and incoming cellular calls from our licensed areas originate or terminate on MTNL's or BSNL's network. Our interconnection arrangements with MTNL and BSNL are governed by our licenses. The Government has allowed the cellular operators to retain 5% of BSNL's or MTNL's charges for calls routed through their fixed-line networks. As private operators enter the recently liberalised national long distance market, we will be required to also enter into interconnection agreements with such operators. All of our cellular operations are either interconnected or will be interconnected with our national long distance company, Bharti Telesonic, to provide our cellular customers with national long distance services.

We bill our customers for airtime and are required to pass the MTNL or BSNL charges to them without a mark-up. We bear the risk of non-collection of these charges. In the case of incoming calls terminating on our network, we are not entitled to receive any portion of MTNL's or BSNL's charges for such calls. We do not impose any charge on our customers for such incoming calls other than airtime charges. We do not incur any interconnection charges for cellular-to-cellular calls made directly between our customers and carried on our network. Accordingly, we are entitled to retain 100% of the charges associated with these calls, which are particularly profitable since we receive airtime revenues for both outgoing and incoming calls.

Under our cellular license agreements, we are permitted to directly interconnect with other cellular or fixed-line service providers in our circle. We have entered into interconnection arrangements with the following cellular services providers: Essar Cellular in Delhi, Usha Martin in Kolkata, Spice Telecom in Karnataka and Tata Cellular in Andhra Pradesh. In our Andhra Pradesh circle, we have entered into an interconnection arrangement with a fixed-line services provider, Tata Teleservices. Pursuant to these interconnection agreements, when our customers make a call to a customer on one of their networks within the same circle, or vice-versa, there are no interconnection charges and the customer is billed only for the airtime charges. These agreements range from a period of one year to ten years.

We are also in the process of entering into similar interconnection arrangements with other cellular operators and private fixed-line operators in our other circles.

***Marketing***

We target high airtime usage professionals and corporate customers for our post-paid services, while our pre-paid services are directed at low usage and low revenue generating customers. We tailor our services and marketing campaigns to attract each of these consumer segments.

Our marketing strategy for post-paid customers includes offering competitive tariff plans to match their usage pattern, value added services targeted at enhancing the utility of a cellular phone and a strong emphasis on customer service. We aim to provide simple and reliable handling of all customer needs and interactions. For example, in all our circles we provide customer support through a 24-hour help line and operator assistance on matters ranging from usage of features to billing queries. We provide our customer service personnel with up-to-date customer, product and billing information to enable them to respond promptly. We also generally interview customers who terminate service and use data gained from this process to improve service where warranted.

We have formulated a loyalty and retention program in Delhi for our key post-paid customers, which is aimed at increasing customer loyalty. Post-paid customers who have been on our network for more than six months are enrolled into a rewards program, based on their average monthly billing. These customers, on the basis of their usage are divided into sub-categories – *Select* and *Elite*. We award bonus points to such customers to incentivise them to stay on our networks. These customers can redeem the accumulated points for the *AirTel* range of cellular products such as dual SIM cards, free SMS, subscription to *Tango* mobile data services and pre-paid connections and recharge coupons, or which are redeemable for gifts and merchandise from various retail outlets. From time to time, we also offer various other promotional and discount schemes to such customers.

We intend to replicate the marketing and customer loyalty programs that have been or currently are successful in Delhi in our other cellular circles.

Our marketing strategy for pre-paid customers includes expanding our market size by reducing the cost of entry, extending the validity period of pre-paid cards, improving the availability of pre-paid cards by expanding our distribution network, offering schemes that are price competitive and creating new products for niche segments. We offer value added services like roaming services between Karnataka and Andhra Pradesh for our pre-paid customers in these circles, and over-the-air recharging which we believe increases the attractiveness of our pre-paid cards.

We use a mix of television, radio, press, billboard and outdoor medium to market our cellular services. A key element of our marketing strategy has been to develop a strong brand identity for the *AirTel* and *Magic* brands and to associate them with cutting edge technology and high quality customer service. From time to time we have entered into co-promotion events and discount programs with various hotels, banks, and entertainment companies to give additional value to our customers.

We have recently launched a marketing program, *Youtopia,* targeted at the youth segment in our Delhi cellular circle. *Youtopia* is India's first mobile youth brand movement and is aimed at creating an exclusive community of *AirTel* post-paid customers by offering them custom made products, value added services, benefits and privileges designed on the basis of customer feedback and extensive market research. As a part of the program, *AirTel* has launched a new portal and a new tariff plan exclusively for the members of *Youtopia*. The portal offers information to target customers in Delhi about the various services including online chat, online discussion boards and online counselling.

***Sales and Distribution***

We use various sales and distribution channels to deliver our services in a cost-effective and efficient manner. The following describes our sales and distribution channels for each of our circles as of November 30, 2001:

*Delhi circle*

We market our cellular services and provide after-sales service support to customers primarily through exclusive franchise outlets known as *AirTel Connects,* authorised telecom stores known as *AirTel Points,* and corporate representatives who market to and service major business accounts. We have implemented training, quality assurance and incentive programs for each distribution channel and provide marketing support to *AirTel Connects* and *AirTel Points* sub-dealers through promotion and advertising. We meet periodically with our franchisees and distributors to review and improve marketing and customer service strategies.

*AirTel Connects.* We had 20 *AirTel Connects* shops exclusively selling *AirTel* and *Magic* products in Delhi. These outlets have been designed to be one-stop shops where retail customers can purchase a cellular telephone and accessories, activate cellular service, and obtain information on, and make payments for, their bills. We have adopted franchisee outlets rather than company-owned outlets for marketing our services since it reduces our capital costs.

*AirTel Points.* We had 34 authorised dealers and 362 sub-dealers supplying SIM cards and other cellular telephone equipment to retail outlets throughout Delhi. These outlets range from specialized electronics retailers to dealers that sell cellular handsets as part of larger businesses. Often, we enter into exclusivity agreements with our distributors that prohibit distribution of cellular telephone services offered by competitors.

*Corporate Representatives.* We had 20 full time corporate sales representatives who identify and solicit major potential corporate accounts throughout the Delhi license area. These corporate representatives also provide personalized after-sales services, such as conducting in-house training sessions and assisting corporate customers with billing questions.

For pre-paid services, we have implemented a "fast moving consumer goods" distribution channel strategy. Our objective is to sell pre-paid cards as a commodity item and increase the availability of recharge coupons for our customers. We had 13 distributors and 4,314 retailers selling *Magic* cards, making the product readily available to any customer.

*Karnataka and Andhra Pradesh circles*

Our sales and distribution networks in the circles of Karnataka and Andhra Pradesh are broadly similar to those of our Delhi circle.

In Karnataka, we had a network of 18 *AirTel Connects* shops, 51 *AirTel Points* and 185 sub-dealers handling subscriptions in both the pre-paid and post-paid categories. To further promote the sale of pre-paid cards, we had a network of 32 distributors, 4,380 retailers, four company sales people and 225 corporate sales agents.

In Andhra Pradesh, we had a network of 18 *AirTel Connects* shops, 43 8 *AirTel Points* and 72 sub-dealers handling subscriptions in both the pre-paid and post-paid categories. To further promote the sale of pre-paid cards, we had a network of 64 distributors, 4,294 retailers, five company sales people and 240 corporate sales agents.

*Chennai circle*

Following the introduction of our *AirTel* and *Magic* brands in October 2001, we have remodeled our distribution network along the lines of our existing distribution network in the Delhi circle.

In Chennai, we had a network of nine *AirTel Connects* shops, eight *AirTel Points* and eight sub-dealers handling subscriptions in both the pre-paid and post-paid categories. To further promote the sale of pre-paid cards, we had a network of six distributors, 2,250 retailers, nine company sales people and 160 corporate sales agents.

*Himachal Pradesh circle*

Our sales and distribution network consisted of seven *AirTel Connects* shop and 31 dealers assisted by 15 company sales people. To further promote the sale of our pre-paid services, we had a network of six distributors, 21 corporate sales agents and 597 retail outlets.

*Kolkata circle*

In Kolkata, we had a network of 5 *AirTel Connects* shops, 90 *AirTel Points* and authorised dealers. To further promote the sale of pre-paid cards, we had a network of 12 distributors, 2,709 retailers, seven company sales people and 200 corporate sales agents.

***Commissions***

For post-paid connections in all our circles, we pay our dealers and franchisees a commission for every new customer connection. Our commission structure is incentivised, wherein the rates may increase up to 100% of base commissions on meeting quality and quantity targets. Franchise commission rates are generally higher than those for our dealers and there are regular performance awards for the best performing franchisees and dealers. Our corporate sales representatives are paid a salary plus incentives on achieving their targets.

For pre-paid connections in all of our circles, distributors and franchisees are remunerated a fixed amount, approximately 20% and 15%, respectively, of the value of the card sold to the customer. For pre-paid recharge coupons, the distributors and franchisees receive approximately 7% of the value of the coupon sold.

***Billing Systems and Subscriber Management***

Our customers are billed on a monthly basis. We use the data generated from our billing system to analyze the effect of tariff packages and promotional and advertising campaigns as well as customer usage patterns, which we then use in developing new services and marketing strategies. Significant growth in the number of customers requires updating and expanding these systems. Failure to do so could adversely affect the quality of our customer service, our billing systems and our ability to develop effective marketing strategies.

Each of our networks currently has separate billing and customer relationship management systems. The billing system for our Delhi network has been provided by Sema, UK. The billing systems for our Andhra Pradesh and Karnataka networks have been supplied by LHS Systems and the billing system for our Himachal Pradesh and Chennai networks have been supplied by Ubest. The billing system for our Kolkata cellular circle has been supplied by Wipro.

We are in the process of implementing new information technology tools across all our existing and new circles, including *Kenan* billing systems from Lucent Technologies, customer relationship management, enterprise resource planning and data warehousing packages from Oracle, data mining tools from SAS and fraud detection tools from Subex. We believe that these information technology tools will streamline our billing procedures, achieve reduction in our costs and provide a uniform standard of service to customers across all our cellular networks.

The *Kenan* billing system comprises a billing platform and an order management system and is expected to:

- provide a convergent platform to offer one solution for all types of billing requirements for different telecommunications services, including voice and data, across all our cellular networks;
- enable us to offer our customers customized billing services;
- offer high scalability which would enable us to offer billing solutions to a large number of customers across all our cellular networks;
- offers an open interface for integration with third party modules and applications; and
- provides an extensive management information system on payment records, accounts receivable and collection status.

The *Kenan* billing system would also allow us to offer to our customers, a customised web-based interface, *iCARE*, which would enable our customers to review account status and invoices online, and enable us to perform credit card validation in a secure manner. We believe that these features would improve our service quality while lowering our customer care costs.

We have commenced the installation of the *Kenan* billing system in some of our cellular circles and we expect the billing system to be fully operational across our existing and proposed cellular circles by the middle of this year.

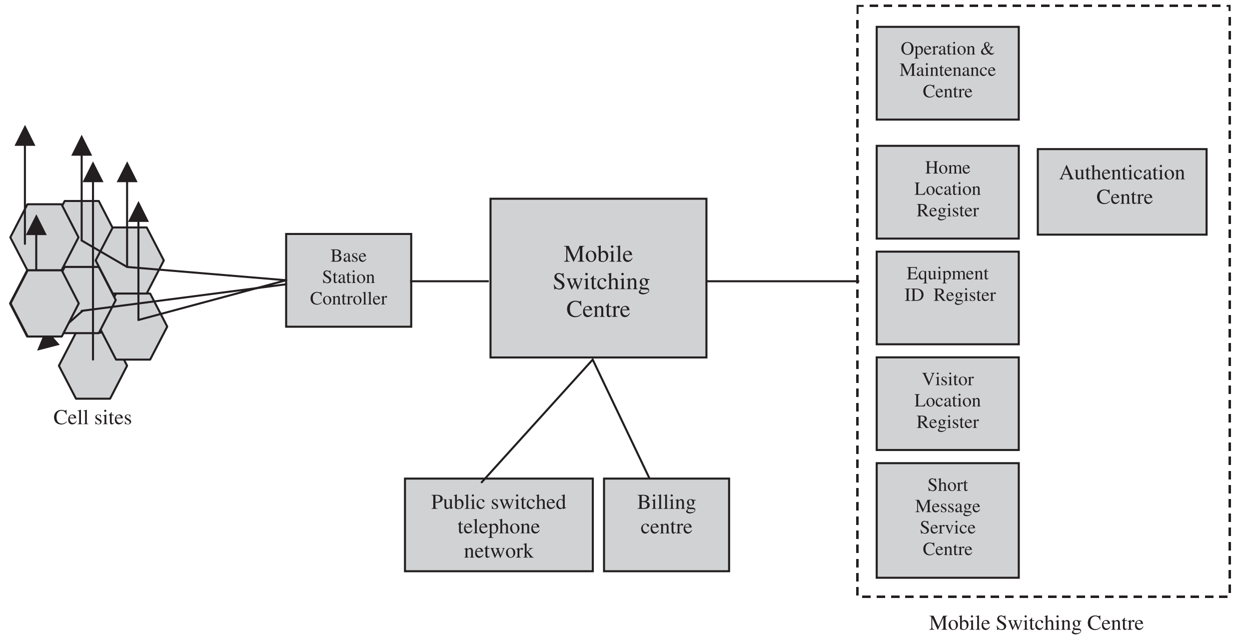
We face credit risk of collections from our post-paid customers. Since India does not have a nationwide credit bureau, it is difficult to verify the creditworthiness of potential customers. We do, however, have a credit and risk management team that conducts credit checks on new post-paid customers, primarily by verifying addresses and through bank references. We also use a risk profile model, which we have developed in our Delhi circle to help manage credit risk. Based on this information, post-paid customers are contacted by our credit and risk management team and, depending on the circumstances, a customer's service may be deactivated. In order to reduce company-initiated disconnection resulting from non-payment, we have implemented policies that limit long-distance access and impose credit limits on certain customers based on their creditworthiness.

We provide our customers 21 days' credit from the date of the invoice for making the payment. Prior to and after the due date, we send reminders to our customers by way of SMS for making payments based on the customer classification. In case payment is not received within the due date, a nominal late payment fee is levied. If the customer still does not pay, the collection responsibility is assigned to a collection and recovery agency and the outgoing call facility of the customer is temporarily withdrawn, based on the classification of the customer. If the payment is still not received, the services are disconnected and another attempt is made to recover the payment through a collection and recovery agency. As a last recourse, legal proceedings are initiated based on the merits of the case and the amount overdue. For the year ended March 31, 2001, bad debt written off represented approximately 1% of our total revenues from cellular services.

We believe a major reason for the non payment of invoices within the due date is delayed payments by customers that require repeated reminders and follow-ups. We are in the process of extending our reach by installing additional drop-in payment boxes at strategic locations, for the convenience of our customers. We are also in the process of increasing the methods of collection through various non-conventional modes, such as netbanking, electronic clearing system and ATM cash dispensers.

***Network Design and Usage***

As of November 30, 2001, our six cellular networks comprised 11 main switching centres, 19 base stations controllers and approximately 855 base stations. The following is a typical layout of one of our cellular networks:



Our cellular networks consist of:

- cell sites, which are physical locations equipped with a base station consisting of transmitters, receivers and other equipment used to communicate through radio channels with customers' cellular telephone handsets within the range of a cell;
- base station controllers, which connect to and control, the base station within each cell site;
- mobile switching centers, for switching calls and interconnecting with the public switched telephone networks and other cellular and fixed-line networks; and
- transmission links, consisting of micro-wave or fiber optic media.

All our present cellular networks operate in the 900 MHz band and all our licenses for our proposed circles, excluding Punjab, have been issued frequency spectrum in the 1800 MHz range. The subscriber capacity of a cellular network is governed in part by the amount of allocated frequency spectrum. The allocation of frequency spectrum is managed by the WPC. To increase subscriber capacity, we may need additional frequency spectrum for operating our network and there can be no assurance that the WPC will grant us any additional spectrum or on terms acceptable to us.

We intend to optimise our existing frequency spectrum by:

- adopting a frequency reuse plan, pursuant to which our existing frequency is used in different areas of the same city in a way that interference is minimized, thereby optimizing frequency usage; and
- implementing a frequency hopping plan, which enhances the capacity of the network within a given spectrum, thereby further optimizing spectrum usage.

We have successfully implemented these plans in our Delhi circle and intend to use them in our other circles as well.

In addition to the availability of frequency spectrum, congestion is another factor affecting the efficiency and quality of our cellular networks during periods of rapid subscriber growth. Congestion generally occurs because of limited capacity in the cellular network or because of a limited number of interconnection points with the network of fixed line operators. We monitor our networks regularly to assess the call drop rates and congestion of networks, which signify the quality of our services and aids us in network planning. We also monitor congestion in our network to identify locations most in need of additional traffic capacity and employ innovative solutions like specialized micro-cells to handle such high volume locations.

All of our existing cellular networks have been installed on a turnkey basis by Ericsson, except for Chennai and Kolkata, where Nokia installed the network. For our proposed networks, and the expansion of our existing networks, we have awarded contracts to Motorola, Siemens or Ericsson. In the Kolkata and Chennai networks, we have initiated steps to replace the existing equipment installed by Nokia with those of Siemens and Ericsson, respectively. In Delhi, Ericsson has set up an Intelligent Network system so we can offer advanced services to pre-paid customers on our network. This system is currently being upgraded to include additional features like customised tariff plans and virtual private network solutions. We have recently deployed another home location register in Delhi, which will provide back up on a real time basis.

We plan to introduce GPRS on our existing and proposed circles by the middle of this year, which would enable us to provide mobile data transmission at speeds of up to 115 kbps.

***Competition***

There is substantial competition in the Indian cellular industry. We believe that competition is based principally on the price, range of value added services, depth of sales and distribution network, brand name, network coverage and service quality. Our ability to compete successfully depends, in part, on our ability to anticipate and respond to competitive factors affecting the Indian cellular industry.

The competitive scenario in the cellular industry has recently undergone significant changes:

- There has been significant consolidation activity in the recent past. Besides the acquisitions made by us, BPL Communications and Birla Tata AT&T have announced the merger of their operations, and Hutchison has also acquired existing cellular networks, including those of our competitors in Delhi and Kolkata. These consolidations may result in these entities, including us, emerging as the prominent cellular operators in the Indian cellular industry. These entities may have access to greater resources and competence and the ability to compete more effectively;
- Government-controlled companies, who may have significant resources and are providing, or have the right to provide, cellular services in India. MTNL has commenced cellular services in the metropolitan areas of Delhi and Mumbai. BSNL has also announced its plans to roll-out its cellular network in some of our existing and proposed circles; and
- Additional licenses have been awarded in each of the principal cellular circles in India.

These developments have significantly increased the level of competition and may lead to a decline in our market share in our present markets. We also expect to face significant competition from existing operators attempting to preserve their market share in the various proposed circles we enter.

As a result of competition and our entry into proposed markets, we may have to:

- reduce our prices;
- increase our capital expenditures in order to offer competing or superior value added services; and
- increase our advertising and distribution expenditures.

Our competitors in our existing and proposed circles are as follows:

*Competition in our existing circles*

| Circle | Other existing cellular operators | New cellular licensees[(1)] |
|---|---|---|
| Delhi | Hutchison and MTNL | BPL-Birla Tata AT&T |
| Chennai | RPG Cellular | Hutchison |
| Kolkata | Hutchison | Reliance Telecom |
| Andhra Pradesh | BPL-Birla Tata AT&T | Hutchison |
| Karnataka | Spice Telecom | Hutchison |
| Himachal Pradesh | Reliance Telecom | Escotel |

(1) BSNL has the right to provide cellular services in all the above circles, except in Delhi and Mumbai, where cellular services are provided by MTNL.

Based on data released by the COAI, our market share and that of other cellular operators in our existing areas of operations as of November 30, 2001 is given below:

| Circle | Bharti | Second operator | Third operator |
|---|---|---|---|
| Delhi | 56% | Hutchison - 40% | MTNL -4% |
| Chennai | 51% | RPG Cellular –49% | |
| Andhra Pradesh | 48% | BPL-Birla Tata AT&T – 52% | |
| Karnataka | 57% | Spice Telecom– 43% | |
| Kolkata | 41% | Hutchison– 59% | |
| Himachal Pradesh | 64% | Reliance Telecom– 36% | |

*Competition in our proposed circles*

| Circle | Existing cellular operators[(1)] | | |
|---|---|---|---|
| Mumbai | BPL-Birla Tata AT&T | Hutchison | MTNL |
| Maharashtra[(2)] | BPL-Birla Tata AT&T | BPL Cellular[(2)] | - |
| Gujarat | BPL-Birla Tata AT&T | Hutchison | - |
| Tamil Nadu | BPL-Birla Tata AT&T | Aircel Limited | - |
| Kerala | BPL-Birla Tata AT&T | Escotel | - |
| Madhya Pradesh | BPL-Birla Tata AT&T | Reliance Telecom | - |
| Uttar Pradesh (West)[(3)] | Escotel | - | - |
| Haryana | Escotel | Essar Group | - |
| Punjab[(4)] | Spice Communication | - | - |

(1) BSNL has the right to provide cellular services in all the above circles except in Delhi and Mumbai, where cellular services are provided by MTNL.

(2) Maharashtra circle of BPL is not part of the combined entity of BPL Communications –Birla Tata AT&T.

(1) We believe that the license awarded to Koshika Telecom, the cellular operator in Uttar Pradesh (West) has been revoked.

(2) Our Punjab license has been restored by the DoT. The fourth cellular license has been awarded to Escotel.

*Competing services.* In addition to competing with other cellular operators, we also compete with fixed-line operators both as an alternative means to provide traditional telecommunications services and, to the extent relevant, limited mobility services using WLL technology.

The Government has permitted fixed-line service providers to offer their customers limited mobility services using WLL, whereby they can make and receive calls within an SDCA. This decision is subject to pending litigation at the TDSAT. The DoT has specified that V5.2 technology or an approved improved version will be deployed for limited mobility services using WLL. We believe that currently available V5.2 technology will significantly restrict the range for limited mobility services using WLL services. Calls are expected to cost the same as fixed-line local calls, which is currently Rs.1.20 per three minutes for outgoing calls and free for incoming calls. The Government has allowed the fixed-line operators offering WLL services to retain 5% of BSNL's or MTNL's charges for calls routed through their fixed-line networks, in line with the revenue sharing arrangement for cellular operators. The TRAI has recommended a minimum monthly rental in the range of Rs.450 to Rs.550 limited mobility services using WLL. While the proposed airtime rates for limited mobility services using WLL are lower than the rates we charge for our cellular services, the monthly rentals are higher. WLL services, as currently proposed would also face operational challenges such as limited range, no roaming facility, higher monthly rentals and higher cost of CDMA handsets and equipment.

The telecommunications industry is subject to rapid and significant changes in technology. We may, therefore, face increased competition from technologies being developed or to be developed in the future. We cannot predict what effect emerging and future technological changes may have on our business.

### *Access Division*

#### *Overview*

The total number of fixed-line customers in India, according to BSNL, has increased from approximately 14.5 million as of March 31, 1997 to approximately 32.4 million as of March 31, 2001, representing an increase in fixed-line penetration from approximately 1.5% to approximately 3% during the same period. The level of fixed-line penetration in India is significantly lower than certain Asian and other international markets.

We became the first private fixed-line service provider in India, when we launched our fixed-line services in June 1998 in the city of Indore, in the Madhya Pradesh circle. We are currently the only private fixed-line telecommunications services provider in the Madhya Pradesh circle, which comprises the states of Madhya Pradesh and Chattisgarh (formerly a part of Madhya Pradesh). We have completed the construction of a 3,648 kilometer fiber optic backbone linking 28 cities in Madhya Pradesh.

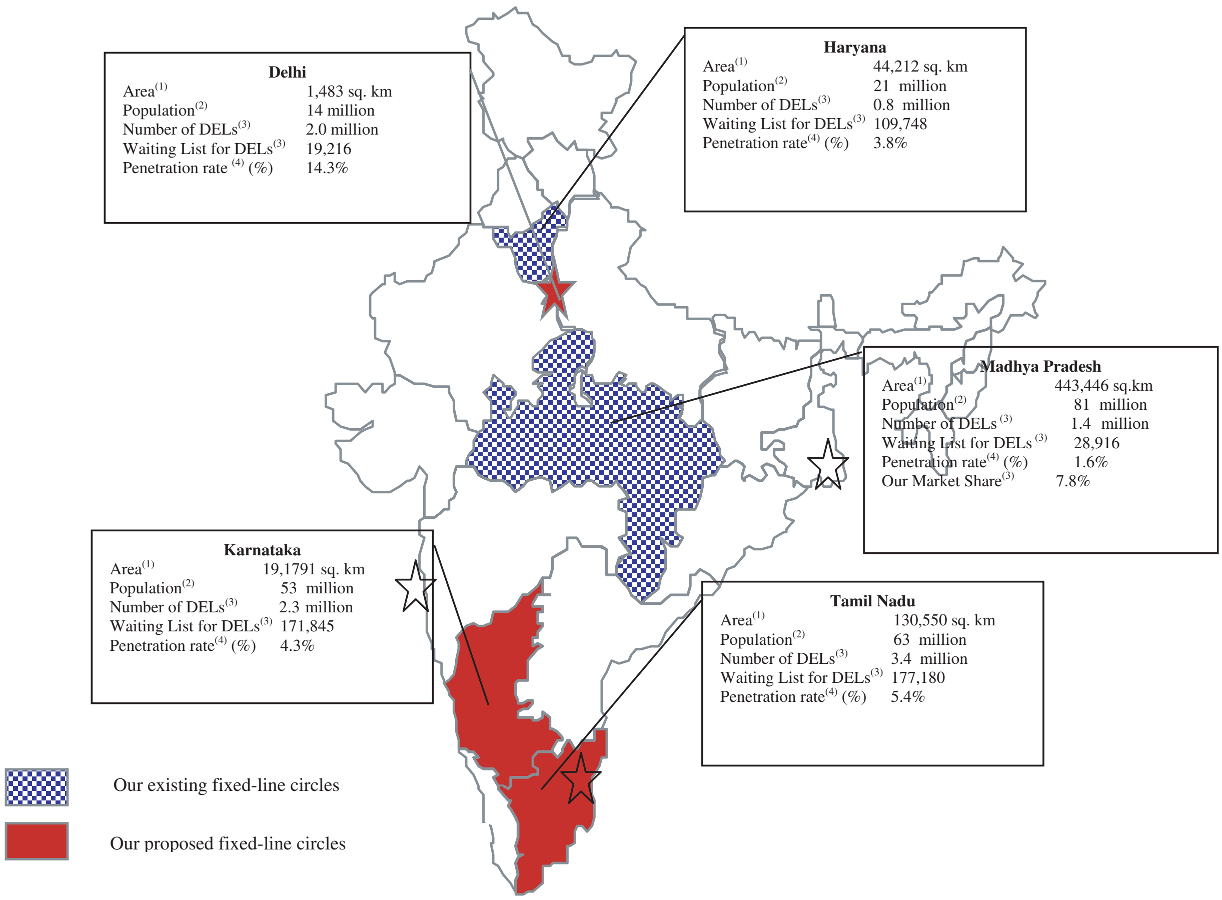
Recently, the Government opened the fixed-line industry to unlimited competition and issued letters of intent to several operators, including us. Although we were issued letters of intent by the DoT to provide fixed-line services in eight circles, we subsequently decided to provide fixed-line services in the four circles of Delhi, Haryana, Karnataka and Tamil Nadu and have recently entered into license agreements with the DoT to provide fixed-line services in these four circles. In December 2001, we launched our fixed-line services in the Haryana circle. At present, we have completed laying more than 100 kilometres of fiber optic backbone and approximately 420 kilometres of copper network in this circle.

Our fixed-line services in the Madhya Pradesh and Haryana circles are branded under the *TouchTel* brand. We also intend to offer our fixed-line services in the proposed circles of Delhi, Karnataka and Tamil Nadu under the *TouchTel* brand to derive synergies and cost advantages from a common branding of fixed-line services.

We believe that these circles have high telecommunications revenue potential, especially for carrying data traffic. These circles are strategically located in regions providing synergies with our proposed national long-distance network and our existing and proposed cellular networks.

### *Our Fixed-Line Footprint*

The diagram below depicts the location of, and provides certain market information for, our existing and proposed fixed-line circles in India:

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Source:

(1) Area estimates are from the National Census, 2001.

(2) Population estimates are from the National Census, 2001 and are as of March 1, 2001.

(3) Based on data available from BSNL's annual report for 2000-01 on the total number of DELs in the circles as of March 31, 2001.

(4) Penetration rate in a circle is represented by the number of DELs as a percentage of population in that circle.

The table below indicates certain key demographics of our existing and proposed fixed-line circles. The information is not representative of our market share or network coverage. We intend to provide fixed-line services in our three proposed circles by the middle of this year:

| Parameters | Existing circle | | Proposed circles | | | Our existing and proposed circles as percentage of all India |
|---|---|---|---|---|---|---|
| | Madhya Pradesh | Haryana | Delhi | Tamil Nadu | Karnataka | |
| Area in the licensed area (square kilometers, in thousands)(1) | 443,446 | 44,212 | 1,483 | 130,550 | 191,791 | 25% |
| Population in the licensed area (in millions)(2) | 81 | 21 | 14 | 63 | 53 | 23% |
| Market DELs in the licensed area (in millions)(3) | 1.4 | 0.8 | 2.0 | 3.4 | 2.3 | 30% |
| Number of vehicles in the licensed area (in thousands)(4) | 2,569 | 1,216 | 2,852 | 3,182 | 2,544 | 34% |

Source:

(1) Area estimates are from the National Census, 2001.

(2) Population estimates are from the National Census, 2001 and are as of March 1, 2001.

(3) Based on data as of March 31, 2001 available from BSNL's annual report for 2000-2001.

(4) Vehicles comprise four wheeler and two wheeler non-commercial vehicles as of March 31, 1997, derived from the most recent data available from the Motor Transport Statistics of India, 1997.

***Business Strategy***

Our strategic objective for our fixed-line business is to have a presence in data centric circles having high telecommunications revenue potential, with a particular focus on high density business and industrial districts, and to become the leading provider of fixed-line services to corporate customers in the markets we serve. To achieve this strategic objective, we plan to:

- be the first private operator to launch fixed-line services in our targeted markets, with a focus on capturing high revenue generating customers. For example, we were the first private operator to launch fixed-line services in the Haryana circle;
- leverage the experience we have gained from developing and operating our fixed-line network in the Madhya Pradesh circle to offer fixed-line services in our targeted markets;
- launch a modular roll-out with an initial focus on high revenue and high population density segments, and in particular commercial centers that demand reliable data transmission services;
- focus our marketing approach on high revenue generating customers, including public call booths;
- offer new and innovative value added services; and
- provide superior customer service and quality fixed-line services to promote a high level of customer satisfaction and achieve customer loyalty.

***Our Current Areas of Operations***

*Madhya Pradesh circle.* Located in central India, the Madhya Pradesh circle has a total area of approximately 443,000 square kilometers and has substantial mineral resources, making it a center for the aluminum, chemical, iron and steel industries. In the Madhya Pradesh circle, we provide fixed-line services in 27 cities, including the five major cities of Indore, Bhopal, Gwalior, Jabalpur and Raipur. We believe that the strongest demand for telecommunications services in the Madhya Pradesh circle are located in these cities.

As of November 30, 2001, we had approximately 135,000 customers and a waiting list of approximately 4,000 customers. Most of our waitlisted customers are in areas where we intend to roll-out our network in the near future. During the year ended March 31, 2001 and the six month period ended September 30, 2001, revenues from our fixed-line operations in the Madhya Pradesh circle were Rs.1,092 million (US$22.8 million) and Rs.755 million(US$15.8 million), respectively, representing approximately 12.9% and 12.1%, respectively, of our total revenues.

*Haryana circle.* Haryana is adjacent to Delhi and is surrounded by the states of Himachal Pradesh, Uttar Pradesh, Rajasthan and Punjab. Several Indian and multinational companies such as Motorola, Nestle, Siemens, Maruti Suzuki, and Hero Honda have their offices in Gurgaon and offer high potential for data transmission services. Haryana is also an emerging centre in North India for IT enabled services such as call centres and information technology related activities, thereby increasing the requirement for telecommunications services.

In December 2001, we commenced our fixed-line services in Gurgaon and Faridabad, in the Haryana circle. We intend to leverage our knowledge and experience of doing business in these areas to formulate our roll-out plans and develop marketing strategies for our fixed-line services.

***Our Proposed Areas of Operations***

We intend to provide fixed-line services in the circles of Delhi, Karnataka and Tamil Nadu. We believe that these areas have a high potential for data transmission since a large number of software development and information technology companies are based in these circles. Some of the principal business activities of information technology companies in India is outsourced software development for overseas clients, provision of information technology enabled and related activities like call centres, customer relationship management, medical transcription, back office processing and data entry among others. These services typically have large bandwidth requirements. We already have a presence in most of these circles, as we provide cellular services in Delhi, Chennai and Karnataka. We intend to leverage our knowledge and experience of doing business in these regions to formulate our roll-out plans and develop marketing strategies for our fixed-line services.

*Delhi.* In addition to being India's political capital, Delhi has the highest per capita income, the highest installed fixed-line penetration rate, and the highest population density among the 29 states of India. Delhi has a high concentration of service and manufacturing industries and houses the Central Government, the head offices for many major public sector enterprises, embassies and various government missions and development agencies, which we believe create a high growth potential for providing fixed-line services.

*Karnataka.* Karnataka is located in southern India and is surrounded by Andhra Pradesh, Tamil Nadu, Kerala, Goa and Maharashtra. Karnataka is a major business center and a large number of information technology companies in India, such as Infosys and Wipro, are located in its capital, Bangalore. Several multinationals such as IBM, Compaq and Motorola have also set Karnataka as one of their software development bases.

*Tamil Nadu.* Tamil Nadu is located in southern India and is surrounded by Andhra Pradesh, Karnataka and Kerala. Tamil Nadu has industries engaged in the business of cotton, sugar, leather, textiles, engineering, automobiles and petrochemicals. Tamil Nadu's capital, Chennai, houses a large number of information technology companies. Our proposed submarine cable landing station will also be located in Chennai.

In addition to entering into licenses with the DoT for our three new fixed-line circles, we have taken the following steps towards launching operations in these circles:

- network planning has been completed and switches and other telecommunications equipment is being installed and commissioned;
- marketing and sales activities are in progress; potential corporate clients are being contacted and channel partners are being identified and appointed;
- a common billing system for our existing and proposed fixed-line operations has been purchased and is being commissioned; and
- key managerial personnel and other manpower requirement are being positioned.

***Services***

We provide fixed-line services, including supply and installation of a telephone, and connectivity for local, national and international long distance calls in our Madhya Pradesh circle. In addition to voice and data telephony, we offer a variety of value added services, including call waiting, daily alarm, abbreviated dialing, three party conferencing, call forwarding, caller line identification, remote telephone management and absentee services. We are in the process of installing an Intelligent Network from Siemens in our Madhya Pradesh fixed-line network. This will enable us to offer more advanced services, such as toll-free numbers, pre-paid calling cards, voice mail systems and virtual private automatic branch exchange networks. We also intend to provide high bandwidth data transmission services to our fixed-line customers in the future.

We have been providing Internet access services in the Madhya Pradesh circle since August 1999 in all the 27 cities where we also provide our fixed-line services. We plan to continue to provide dial-up Internet access services to all our customers under the *Mantra* brand. As of November 30, 2001, we provided Internet access to approximately 15,000 fixed-line customers, which included corporate customers and small and medium businesses. We believe that this market will grow with increased marketing and consumer awareness of the benefits of the Internet.

In our Haryana circle, we will offer services similar to those being offered in the Madhya Pradesh circle. To cater to the high data transmission requirements of corporate customers in the Haryana circle, we intend to offer high capacity leased lines, private leased circuits, dedicated ISDN services, Internet and web based value added services.

***Customers***

Our customer base in our Madhya Pradesh circle has grown rapidly since we commenced services in June 1998, from 12,223 customers as of March 31, 1999 to 134,958 customers as of November 30, 2001. We calculate average revenue per customer per month by taking the total fixed-line revenues and dividing it by the average number of customers during the period (calculated as the average of the sum of the customers at the beginning of the period and at the end of the period). The result so obtained is divided by the number of months in that period to arrive at the average revenue per customer per month. Our average revenue per customer per month was approximately Rs.1,048 for the financial year March 31, 2001. We also target public call booth, or PCO, customers as revenues from these customers are typically higher than revenues from our other customers.

We are focussed on generating revenues from commercial areas and our penetration levels are higher in the cities of Gwalior, Raipur, Bhopal and Indore. For the year ended March 31, 2001, approximately 27% of our customers were large national and multinational corporations contributing approximately 70% of our revenues from fixed-line services. Our corporate customers include Coca-Cola, Eicher Limited, RPG Cellcom, Lupin Laboratories, Ruchi Group, Jyoti Overseas, ICICI and Bharat Heavy Electricals Limited.

***Churn***

Our average monthly churn rate during the 12 month period ended March 31, 2001 and the eight month period ended November 30, 2001 was 2.5% and 1.9%, respectively. We believe that this rate of churn was a result of customer movement out of our service area for professional and personal reasons, shifting of customers to the incumbent service provider and involuntary churn of customers due to billing disputes and disconnection by us for non-receipt of payments from customers.

We seek to reduce our churn by improving our quality of services, providing superior customer service and increasing the range of our value added services.

***Tariffs***

Although we have flexibility in setting our tariffs, we are required to offer our customers a standard tariff plan as prescribed by the TRAI. The standard tariff plan specifies the following charges:

- registration charges of Rs.500 to Rs.2,000, depending upon the switching capacity of the exchange and type of customer;
- a one-time installation charge of Rs.300 to Rs.800, depending upon the switching capacity of the exchange;
- a refundable, non-interest bearing security deposit equivalent to 12 months subscription fee;
- monthly subscription fee varying between Rs.70 to Rs.310, depending upon the switching capacity of the exchange and type of customer; and
- fixed-line charges for outgoing calls at Rs.0.80 to 1.20 for a local call of three minutes, depending on usage.

We have tariff plans that address the requirements of different user segments in the Madhya Pradesh circle, based on their usage patterns. For residential customers and small businesses, we have two tariff plans, wherein customers are entitled to a higher number of free calls by making a higher commitment (vis-a-vis the TRAI prescribed tariff package) towards monthly revenue. These plans are targeted at attracting and retaining medium and high usage customers. For corporate customers, we offer bulk discounts, which are linked to their monthly usage/billing levels. There are also add-on options that offer benefits on specific types of traffic on payment of an additional monthly fee. We do not charge our customers ISP charges for Internet access, which we believe has been effective in increasing our market share. For the PCO segment, we have three tariff plans, suitable for a large number of intra-circle calls, national long distance calls and local calls.

For our fixed-line services in the Haryana circle, our tariff plans are competitive with those offered by BSNL in the Haryana circle.

***Interconnection***

Interconnection agreements with Government operators form a part of our license agreements. Our interconnection agreements with private sector operators are based on mutually agreeable terms and conditions. The TRAI has the authority to regulate matters relating to interconnection between operators. We currently have interconnection agreements with BSNL and Reliance, a private sector cellular operator in the Madhya Pradesh circle and have entered into an interconnection arrangement with BSNL for our Haryana circle. Our interconnection agreement with Reliance enables us to interconnect with Reliance's cellular network independent of the BSNL network. Our interconnection arrangements with BSNL require us to make payments depending upon the number of points of connectivity with BSNL's network and permits sharing of charges generated by outgoing calls. Pursuant to our existing arrangement with BSNL, in case of outgoing calls from our network, we are permitted to retain:

- 60% of revenues for national long distance calls (including inter-circle calls and any intra-circle calls where the call was originated from our network but not carried exclusively on our network); and
- 45% of revenues for international calls.

We currently do not receive any revenues for calls that terminate on our network.

We are not required to pay any interconnection charges with respect to intra-circle calls that we carry exclusively on our network and we retain 100% of revenues from such calls. For example, for calls made within the circle of Madhya Pradesh, we believe that our extensive network connecting 28 cities enables us to carry the entire or substantial portion of the call on our network, which permits us to retain all or a significant portion of the revenues from such calls.

As private fixed-line operators, we will be required to enter into interconnection agreements with all national long distance operators.

***Marketing, Sales and Distribution***

We offer our fixed-line services under the *TouchTel* brand. Our marketing strategy has been to emphasize the superior features of our network, the range of value added services that we provide, the quality of our customer service and the flexibility of our tariffs to attract and retain high usage customers. We attract customers by emphasizing the reliability and service quality provided by our advanced technology and equipment.

We believe that our ability to provide connections to new customers more rapidly provides us with a competitive advantage over BSNL. In areas where we offer services, in most cases we are able to provide a connection within 15 days after an application is submitted. In view of growing demand for telecommunications services and the extended waiting time typically associated with installing telephone lines, we believe that quicker customer activation will enable us to attract a share of new fixed-line installations, particularly business and other customers that tend to have the most demanding service requirements.

We are also focusing on marketing payphone services where we provide commissions to private operators for operating a PCO. As of November 30, 2001, we had approximately 14,800 PCOs in the Madhya Pradesh circle. Commissions vary between 16% and 25% of revenues generated. PCOs typically generate significantly higher revenues per month as compared to revenues generated by our other customers due to the greater number of calls that originate from those lines.

We also provide our customers with high quality and readily available after-sales service. Our 24-hour call centre provides assistance to our customers on fault detection and rectification. As of November 30, 2001, we had approximately 116 customer care agents in our centralised call centre. The call centre is divided into six segments, catering to different customer categories, including key accountholders, Internet users and payphone customers.

We market our services through our sales team which handles key customer accounts, including corporate accounts, and an indirect sales team, which caters to other segments of the market. As of November 30, 2001, we had six shops, 35 dealers, 15 sub-dealers, 30 direct sales personnel and 312 indirect sales personnel. We currently pay a fixed-base commission of approximately Rs.350 per new fixed-line customer and an additional performance linked incentive, wherein the rates may increase up to 85% of the base commission, based on the period that the new customer remains on our network.

***Billing Systems***

We bill our customers on a monthly basis. The current billing system for our Madhya Pradesh fixed-line network has been provided by Ericsson-Hewlett Packard Telecommunications. The billing system is centralised in Bhopal and every call made generates a call data register, which is recorded in the central billing system located at Bhopal. Bills are processed centrally and thereafter distributed to the relevant cities and towns.

We have installed a *Kenan* billing system in our Haryana network and we intend to implement a common *Kenan* billing system in our Madhya Pradesh and our proposed fixed-line networks. This *Kenan* billing system, comprising a billing platform and an order management system, has features similar to the proposed *Kenan* billing system for our cellular division and would provide similar benefits.

***Network Design and Usage***

Over the past three years, we have built a high quality fixed-line network with a switch capacity of approximately 184,000 DELs. Our switches are located in Indore, Bhopal, Gwalior, Jabalpur and Raipur, the state's most populous urban centers, and are capable of supporting both fixed-line and limited mobility services using WLL. We have also built rings around the five key urban centres within the Madhya Pradesh circle so that the network may deal with unanticipated technical failures. Our network uses a fibre optic cable ring architecture with the last mile connection to the customers being provided, in most cases, through copper coaxial wires. We have also utilised wireless solutions to establish a presence more quickly in areas that are not densely populated in order to meet our roll-out obligations in a cost effective manner. We will continue to utilise similar solutions in our proposed circles.

For our Madhya Pradesh circle, we have deployed circuit switching and STM-4-SDH technology from Siemens. The network comprises five main switching units, 62 remote switching units and 22 base transceiver stations with a total switch capacity of 184,000 DELs. The network is capable of handling 250,000 local exchange lines and 60,000 trunk lines and is capable of carrying 42,000 erlangs of traffic.

Our principal reliability measures are call completion and fault rates. Our Madhya Pradesh fixed-line network has demonstrated a high degree of reliability and a continued improvement in performance, as shown by the following table:

| | As of March 31, | | |
|---|---|---|---|
| | 1999 | 2000 | 2001 |
| Fault rate (1) | 25 | 20 | 14 |
| Call completion rate (2) | 39% | 40% | 42% |

(1) The fault rate measures the number of service outage related faults per 100 telephone lines per month.

(2) The call completion rate measures only those calls actually completed to the terminating customer and excludes calls not answered, calls to a busy line, calls to non-working numbers and telephones experiencing technical difficulties measured on overall busy hour.

During the year ended March 31, 2001, we experienced an average customer trouble report rate of 14 reports per 100 lines, with 64% of reported troubles cleared within 24 hours and 90% cleared within five days. We believe that the reliability of our fixed-line network and our prompt clearance of reported troubles provides us with an important competitive advantage.

We plan to expand our fixed-line network in the Madhya Pradesh circle in stages, depending on the concentration of urban, industrial and business areas in a particular district and the universal service obligation requirement under our license to cover a minimum 11% of the total DELs of the circle for village public telephones.

For our Haryana circle, at present we have a network comprising two main switching units, ten remote switching units and 11 digital line units.

***Competition***

In 1999, the Government implemented NTP 1999 that eliminated the restrictions on the number of private operators permitted to provide fixed-line services in any circle. New entrants are permitted to provide all types of fixed-line services, including voice and data, utilizing any type of network equipment, subject to meeting certain minimum technical standards. We have taken advantage of these regulations and intend to provide fixed-line services in the Delhi, Karnataka and Tamil Nadu circles, in addition to launching services in the Haryana circle recently.

We believe that the liberalisation of the fixed-line services industry in India will open the Indian telecommunications markets to greater competition, both from domestic and international private sector companies. Certain private sector operators have recently obtained licenses in the circles where we intend to provide fixed-line services. For example, the Reliance Group and the Tata Group have obtained licenses to provide fixed-line services in 16 circles and four circles, in India, respectively. We intend to meet these competitive challenges by offering high quality, dependable services at reasonable prices and leveraging our other service offerings.

We currently compete with BSNL, the incumbent fixed-line service provider, in the Madhya Pradesh and Haryana circles. BSNL or MTNL will also be the incumbent service provider in the additional circles where we propose to enter. These Government companies are well entrenched and have established a presence in most of the key areas where we plan to roll-out our fixed-line network. The Government has allowed BSNL greater independence in making commercial decisions by corporatising it, which could foster greater competition in circles in which we compete with BSNL. We believe, however, that we have been able to compete with BSNL effectively in the Madhya Pradesh circle and as of March 31, 2001 we had a market share of 7.8% in terms of the number of fixed-line subscribers.

We may also compete for our customers with other technologies and telecommunications services for our fixed-line services. We cannot predict what effect emerging and future technological changes may have on our fixed-line business.

**Long Distance Division**

***Overview***

We classify our long distance business into the following categories:

*National long distance,* which comprises:

- setting up infrastructure for carrying long distance traffic; and
- carrying voice and data traffic within the country.

*International long distance,* which comprises:

- setting up a landing station to connect to international submarine cable systems developed by other infrastructure providers to facilitate transmission of international data traffic; and
- providing international long distance services to carry voice and data traffic when permitted by the Government subject to prevailing terms and conditions being favorable to us.

According to the TRAI, the national long distance market generated revenues of approximately Rs.124 billion (US$2.6 billion) in the year ended March 31, 1999, with an estimated 54% of the revenues from inter-circle traffic and the balance from intra-circle traffic. The TRAI also estimates that this market will grow to approximately Rs.240 billion (US$5 billion) by the year ended March 31, 2005.

We believe that the following factors will contribute to the growth of the national long distance market in India:

- overall growth in the Indian economy leading to increased corporate and residential demand for national long distance services;
- reduced tariffs for national long distance calls resulting from increased competition;

- improved service quality and the expected introduction of new services, such as pre-paid calling cards and value added services;
- increased usage of lease-line and toll-free calling services by businesses; and
- increasing globalisation of Indian businesses leading to increased international voice and data transmission through national long distance networks to international gateways.

We have entered into a license with the DoT to provide national long distance voice and data services across India and are deploying an advanced fiber optic network across India to provide such services to corporate and residential customers. In December 2001, we commenced offering data services in certain regions in India and expect to commence providing voice services for cellular to cellular calls from January 26, 2002, subject to receipt of requisite regulatory approvals. We also intend to provide national long distance services to fixed-line customers, subject to entering into suitable interconnection and technical arrangements with fixed-line service providers.

We presently carry international data traffic through our seven international satellite gateways located in India and operated under our broadband division. The Government has announced that private sector participation in international voice services will be permitted from April 2002. The TRAI has recently issued recommendations for the opening up of the international long distance market and subsequently the Government has issued a draft license agreement, incorporating the aforesaid recommendations and has soughtcomment from the public, including potential entrants. The international long distance market is presently monopolised by the Government controlled incumbent, VSNL, which reported gross revenues in excess of Rs.64 billion (US$1.34 billion), in the financial year ended March 31, 2001, from international long distance calls. Unless the terms and conditions provided in the draft license agreement are altered in a materially adverse manner, we intend to provide international voice services when it is opened for private sector participation.

We are also constructing a submarine cable landing station at Chennai which will connect the submarine cable system being deployed by our affiliate and possibly other submarine cable systems in order to provide access to international bandwidth.

We believe that our presence in key Indian cellular and fixed-line markets will complement our national long distance and international long distance businesses and enable us to provide end-to-end telecommunications services to our key customers.

***Strategy***

Our strategic objective for our long distance business is to become the leading private sector provider of national long distance and international long distance telecommunications services in key Indian markets. To achieve our strategic objective, we intend to:

- leverage our existing strengths, experiences and strong presence in our cellular and fixed-line businesses;
- leverage our corporate brand and superior customer services to capture a sizeable market share;
- roll-out our network as promptly and efficiently as possible by constructing our own infrastructure in high revenue and dense population areas while leasing bandwidth in service areas that have lower demand levels; and
- offer new and innovative value added services to our key customers.

***Our proposed national long distance network***

As of November 30, 2001, we laid ducts for hosting fiber optic cable for 11,466 kilometers and rolled-out approximately 8,729 kilometers of fiber optic cable, which includes our fiber optic network in the Madhya Pradesh, Andhra Pradesh and Karnataka circles. We believe that our existing fibre optic network in the Madhya Pradesh circle will enable us to connect the north-south corridor in India more quickly.

Our national long distance network is designed to carry inter-circle and intra-circle voice and data traffic. This network can be upgraded to meet additional traffic requirements and has built in redundancies, including a spare duct for future use.

Our national long distance network consists of the following:

| | |
|---|---|
| Transmission layer ..................................... | a high capacity fibre optic network for national long distance communications |
| Voice TDM switch layer .............................. | to route inter-city long distance voice traffic all over the country |
| IP and ATM data layer ............................... | a converged multi service layer for voice, data and video services |
| Intelligent Network ..................................... | to enable provision of value added services such as prepaid calling card, free phone service, premium rate service, televoting services, universal access number and virtual private network. |

Our national long distance network also incorporates IP centric capability which makes it possible to offer products like IP leased lines and IP VPNs, which offer cost and price advantages to us. IP VPNs are secure and a single IP leased line to our backbone will allow a customer connectivity to various points without leasing multiple lines. The ISP license issued to us allows us to offer these services and also allow us to lease such services to other ISPs.

We currently source fiber optic cable from various international and domestic vendors such as Lucent, LG, Corning and Sterlite, transmission equipment from Nortel Networks, ducts from Duraline, switches and Intelligent Networks from Siemens, and ATM switches from Alcatel.

***Our services***

Our national long distance network is equipped to provide both voice and data transmission services. We commenced offering data services in December 2001 under the *IndiaOne* brand. Our data transmission services include high bandwidth leased line Internet protocol services, frame relay services, ATM services and video services.

The TRAI has formulated an access mechanism for national long distance services, whereby the customer would be able to choose the carrier with which they would like their national long distance calls to be carried. This access mechanism will be operational in India subject to the national long distance providers entering into suitable arrangement with access providers. To make a national long distance call, a subscriber would be required to dial five prefixed digits, which will be prefixed to the National Significant Number, or NSN, comprising the area code and the local number. The prefixed five digits are in three parts. The first number to be dialed is 0. The second is the Carrier Access Code, or CAC, for national long distance service. This number is 10. The third is the Carrier Identification Code, or CIC, a unique two digit access code for each national long distance operator. The CIC allotted to Bharti Telesonic by the DoT is 50. Once the suitable infrastructure is ready and services commence, a customer would dial 0-10 (CAC) – 50 (Bharti CIC) – NSN (area code + local number) in order to use Bharti's national long distance network. The above access code will be applicable to all national long distance service providers, including the incumbent service provider BSNL. For example, if a person located outside the Delhi circle desires to call the Company's corporate office in New Delhi using the Bharti Telesonic network, such a person would dial '0-10-50-11-664 1321'.

Billing for national long distance services can be done either directly or through the access provider, which could be either the cellular, fixed-line or cable service providers, pursuant to the Government's national long distance policy.

Once the above scheme is implemented, it will enable all national long distance operators to have access to the subscribers of all fixed-line and cellular operators including the Government-controlled operators, BSNL and MTNL, and other private operators. Pursuant to TRAI estimates, such customers generated revenues in excess of Rs.124 billion (US$ 2.6 billion) during the financial year ended March 31, 2001.

We have also commenced offering national long distance services by offering data transmission services in certain regions of India and intend to offer voice transmission services for cellular to cellular calls shortly, subject to receipt of requisite regulatory approvals. We intend to provide voice services to fixed-line customers after the necessary interconnection and technical arrangements have been entered into with BSNL and other private fixed-line operators. We also intend to expand the range of our voice services to provide the latest services and features, such as toll-free phone services, premium rate services (such as a medical help line), and televoting services (which can be used by various agencies to conduct opinion polls or national market research).

***Interconnection***

Present regulations permit the holder of a national long distance license to carry only inter-circle traffic on their network. A national long distance carrier may carry intra-circle traffic only in conjunction with cellular, fixed-line or cable service providers in that circle.

Bharti Telesonic has entered into a memorandum of understanding with each of Bharti Cellular, Bharti Telenet and Bharti Mobile to enter into interconnection arrangements for carriage of cellular to cellular calls on all our networks. These entities intend to enter into definitive interconnection agreement in the near future.

According to existing interconnection arrangements between BSNL and private fixed-line operators, the fixed-line operator is permitted to retain 60% of the charges for inter-circle calls (except those for WLL subscribers) and intra-circles calls (where the call is originated by the fixed-line service provider and not carried exclusively on its network), with the balance going to the national long distance operator. Presently, the national long distance operator is permitted to retain 95% of the revenues from long distance calls by cellular subscribers and from long distance calls by fixed-line subscribers using limited mobility.

In December 2001, we launched our national long distance voice transmission services by entering into arrangements with some of India's private cellular operators. Pursuant to these arrangements, we announced that long distance calling charges for calls between cellular subscribers will be reduced by approximately 50% of then prevailing rates, with effect from January 26, 2002, subject to approval by TRAI with respect to our proposed tariff rate. Subsequently, BSNL announced a reduction in its fees by approximately 62%, applicable to all long distance, fixed-line and cellular calls carried on BSNL's network. We expect present and new entrants to continue to provide services at competitive rates.

On December 20, 2001, we entered into an arrangement with VSNL, the incumbent international long distance operator, for interconnect and carriage of the domestic portion of the international long distance traffic originating from, or terminating in, the cellular access provider's network. As per the terms of the arrangement, Bharti Telesonic would use its own infrastructure until the VSNL international gateways located at Delhi, Mumbai, Chennai and other cities and thereafter, VSNL would permit us to use their premises and interconnection facilities. The arrangement is valid until March 31, 2002 and is mutually extendible.

We also intend to enter into interconnection agreements with fixed-line operators in the markets of our network to provide voice services to fixed-line customers.

***Competition***

In August 2000, the Government eliminated the restriction on the number of national long distance service providers. We believe that the opening up of the national long distance market in India will lead to greater competition in this segment. The Reliance Group and VSNL, the incumbent international long distance service provider, have obtained letters of intent from the DoT to provide national long distance services but have not obtained a license as yet. BSNL is currently India's largest provider of national long distance services. Our national long distance business is, therefore, in competition with an incumbent Government-owned company. We believe, the reduction in national long distance tariffs initiated by us, prompted the incumbent, BSNL, to announce a significant reduction in its long distance tariffs. The proposal to allow access providers to directly interconnect to international long distance operators in places where they have gateway switches at the same place is not currently expected to impact our national long distance business.

The reduction in tariffs is expected to lead to an increase in the subscriber base and usage and consequently, result in the growth of the national long distance market in India. We believe that this would be beneficial to the users of national long distance services, access providers and national long distance service providers.

We believe that key differentiating factors in the national long distance business will be our focus on telecommunications, synergies with our existing fixed-line and cellular operations, the quality of our network and our marketing strengths.

***International Long Distance license– proposed terms***

The TRAI has recently issued recommendations for the opening up of the international long distance market and the Government subsequently issued a draft license agreement to seek comment from the public, including potential entrants. The TRAI had recommended that there should be no restrictions on the number of operators and licenses may be issued to all operators who meet pre-qualification criteria in terms of financial parameters and commitment to network roll out and other licensing conditions including quality of service requirements.

The salient features of the draft license agreement are as follows:

- International long distance operator is required to build its own gateway facilities, such as gateway switches and multiplexing equipment. International long distance operator cannot access subscribers directly and they are required to route their calls through a national long distance services provider or any access provider.

- International long distance operator is required to provide all types of bearer services from an integrated platform so that end to end teleservices, such as voice, data, fax, video and multi-media can be provided by access providers to their customers. International long distance operators are also permitted to offer bandwidth on lease to other operators.
- In addition to the one time entry fee proposed at Rs.250 million (US$ 5.2 million), international long distance service providers are required to pay an annual license fee, including universal services obligation charges, at the rate of 15% of the gross revenues, adjusted for certain permitted expenses.
- International long distance operator is required to establish a minimum four points of presence-one each in the eastern, western, northern and southern regions of India. The operator should also facilitate delivery of traffic through at least four direct routes, one each to North America, Gulf region, Europe and any one location in Southeast Asia or Far East Oceania. It should be ensured that traffic to remaining countries is transited through one of the hubs abroad. Also, the operators network should allow traffic to terminate at any global destination.
- International long distance traffic should be routed through a national long distance operator, to the international long distance operator's gateways for onward transmission to international networks. However, the access provider should be allowed to interconnect with the international long distance operator directly in situations where the international long distance operator's gateway switches, and those of access provider's are located at the same station.

See also the section on 'Indian Telecommunications Industry - Regulations' in this red herring prospectus for additional details on the draft licence agreement.

Unless the terms and conditions provided in the draft license agreement are altered in a materially adverse manner, we intend to provide international voice services when it is opened for private sector participation.

***Submarine cable landing station***

We intend to capitalise on the growing demand for international bandwidth due to the rapid growth of technology and Internet related industries in India by providing international bandwidth access through our submarine cable landing station at Chennai. We are in the process of constructing a submarine cable landing station at Chennai. Our submarine cable landing station will connect our telecommunications networks in India to the submarine cable systems developed by other infrastructure providers to facilitate transmission of international telecommunications traffic.

The landing station will provide our customers with international bandwidth access for both data and, when permitted, voice services. We, along with our affiliates, intend to sell international bandwidth directly and to other telecommunications service providers. Our target customers will include software companies, corporate houses, Internet service providers, Internet data centers and call centers. We expect that our submarine cable landing station will be operational by the middle of this year.

**Broadband Division**

***Overview***

We believe that the growth in the Indian economy, increased globalisation of Indian businesses and their continued effort to develop and integrate the latest technologies into their operations, together with the emergence of India as a potential centre for outsourced software development will contribute to increased demand for data transmission services. We believe that this will lead to increased demand for high capacity and reliable network systems and telecommunications carriers who can provide end-to-end business solutions in India.

We believe that our strong presence in the Indian telecommunications market, the depth and quality of the telecommunications services that we currently offer and plan to offer, and our extensive knowledge of customer preferences enhances our competitive position to provide such value added services.

***Strategy***

Our strategic objective for our broadband division is to become a leading provider of secure, reliable and customised end-to-end network solutions for data communication, especially to corporate customers. To achieve our strategic objective, we intend to:

- leverage the bandwidth available in our subsidiaries through our nationwide fiber optic backbone that is being constructed, last mile connectivity in our existing and proposed fixed-line networks, VSATs, and international bandwidth access through our submarine cable landing station to provide a packaged solution to our corporate customers;
- utilise the available bandwidth, including that from our subsidiaries, and resell the same to our customers, rather than incur significant additional capital expenditures to establish that capacity; and
- leverage our telecommunications expertise, both technical and commercial, to provide end-to-end solutions to customers with high revenue generating potential.

In accordance with our strategy, we have recently integrated our existing Internet and VSAT businesses with our proposed broadband business to develop a common platform for offering integrated business solutions for our customers. The primary focus of these two businesses would continue to be on corporate customers.

***Our services***

*Network solutions*

We offer broadband connectivity for various end uses, including data, IT-enabled services and other high bandwidth demanding services. We believe that our solutions enhance flexibility and scalability while reducing our clients' maintenance cost.

We also offer our customers point-to-point connectivity to connect them with their vendors and clients in a secure and reliable manner, virtual private networks for corporate and small and medium business customers, scalable hybrid solutions, which provides corporate customers with flexibility for temporary higher bandwidth usage, system integration solutions for corporate customers and ISP access service to our corporate and small and medium business customer segment.

*VSAT services*

As of November 30, 2001, we provided VSAT based voice and data transmission services, with our approximately 670 VSATs, to approximately 60 Indian and multinational companies, which included Cadburys, Colgate Palmolive, Compaq, Enron, ITC, LG Electronics, Microsoft, Nestle, Smithkline Beecham, Tata Consultancy, The New York Times, Toshiba and Bharat Petroleum Corporation Limited.

VSAT based communications services permit the transmission of digital information between and among many remote locations and a central location through satellite and a high-capacity hub earth station. VSAT services are well suited to customers who need to communicate bursts of information for relatively short periods of time and who do not require a permanent, dedicated transmission channel. We have leased satellite transponders from the DoT and offer VSAT services from our hub station in Bangalore through a network of offices spread across seven major cities in India.

The marketing and technical assistance provided by our in-house teams is supported by strategic alliances with various systems integrators such as NIIT, IBM and Wipro, and value-added resellers that operate in localized markets.

Our main competitors include Hughes Escort Communication Limited, Comsat Max and HCL Comnet.

*Internet services*

We currently provide Internet services to both residential and corporate customers under ISP licenses across India. As of November 30, 2001, we provided Internet services to approximately 157,000 dial-up customers and approximately 205 corporate customers. Our Internet service is provided under the *Mantra* brand name and we have also developed a horizontal portal, *Mantra Online,* which has various information channels covering games, travel, horoscope, news, lifestyle, entertainment and weather among others.

We currently provide dial-up Internet access services in Delhi, Mumbai, Bangalore, Pune, Hyderabad, Chennai, Calcutta, Chandigarh, Jaipur and Ahmedabad, in addition to the 27 cities served by our Madhya Pradesh fixed-line network in an arrangement with Bharti Telenet. Going forward, we intend to focus primarily on the corporate business segment. We have set up international satellite gateways connected to the Internet at Delhi, Pune, Bangalore, Calcutta, Chennai and Hyderabad.

We also provide a wide range of Internet related services to our corporate customers, including:

- dedicated leased line with bandwidth varying from 64 kbps to 2 Mbps;
- ISDN lines with bandwidth varying from 64 kbps to 128 kbps;
- virtual private networks;
- web hosting and server co-location; and
- Internet mailing services for our corporate customers.

Our main competitors include VSNL and MTNL and some private sector operators. We also compete with alternate or emerging Internet access technologies, such as DSL.

**Insurance**

We maintain property insurance to cover our cellular and fixed-line networks from damages due to fire, aircraft damage, landslide, earthquakes or burglary and our fixed-line networks from damages due to fire or earthquakes. We currently do not carry business interruption insurance. The amount of our insurance coverage is equal to the full replacement value of our telecommunications networks. Our insurance policies are renewed on an annual basis. Most of our insurance policies are valid until March 31, 2002 and we intend to renew these policies regularly.

**Property**

We typically own the property on which our MSCs, main offices and registered office are located. Most of the land and space on buildings on which we place our base stations, antenna towers and switching centers in the areas of our operation are leased. The leases are typically for initial minimum terms of three years, renewable for terms of up to ten years. We anticipate that we will need an increased number of new sites in connection with the continuing build-out of our existing networks and the setting up of our proposed networks. We will continue to need to obtain local government approvals in order to obtain easements for the wiring of our fixed-line network and our proposed national long distance network.

We also own or lease land and buildings for our administrative and customer service centers and technical facilities.

## OUR HISTORY AND CORPORATE STRUCTURE

Bharti Tele-Ventures was incorporated on July 7, 1995 as a company with limited liability under the Companies Act, for promoting telecommunications services. Bharti Tele-Ventures received a certificate for commencement of business on January 18, 1996. The shareholding structure of Bharti Tele-Ventures prior to and after this Offering is set forth below:

| Shareholders | Number of Equity Shares | Percentage holding Prior to the Offering | Number of Equity Shares after the Offering(1) | Percentage holding after the Offering |
|---|---|---|---|---|
| **Indian Shareholding:** | | | | |
| Bharti Telecom(2) (3) | 859,986,028(2) | 51.6% | 859,986,028 | 46.4% |
| Other shareholders | 35,090,000 | 2.1% | 35,090,000 | 1.9% |
| **Total Indian Shareholding** | **895,076,028** | **53.7%** | **895,076,028** | **48.3%** |
| **Foreign Shareholding:** | | | | |
| Pastel Limited(3) | 295,659,650 | 17.7% | 295,659,650 | 16.0% |
| Brentwood Investment Holdings Limited(4) | 343,215,268 | 20.6% | 343,215,268 | 18.5% |
| AIF entities | 67,244,716 | 4.0% | 67,244,716 | 3.6% |
| New York Life Insurance Inc. | 13,860,979 | 0.83% | 13,860,979 | 0.75% |
| Other shareholders | 52,973,426 | 3.2% | 52,973,426 | 2.9% |
| **Total Foreign Shareholding** | **772,954,039** | **46.3%** | **772,954,039** | **41.7%** |
| **Public** | - | - | 185,336,700 | 10.0% |
| **Total Shareholding** | **1,668,030,067** | **100.0%** | **1,853,366,767** | **100.0%** |

(1) This table assumes the size of the Offering is 185,336,700 equity shares.

(2) The beneficial interest of Mr.Sunil Bharti Mittal, the promoter of Bharti Telecom, in Bharti Tele-Ventures is 39.27% of the total outstanding equity shares prior to this Offering and 35.35% after this Offering. This beneficial interest is held directly and indirectly by him and members of his family through Bharti Overseas Trading Company, Bharti Global Limited, Indian Continent Investment and Bharti Enterprises. For further details, see "Capital Structure" and "Our Promoter".

(3) Pastel Limited is an investment company of SingTel. It owns 17.7% and 20% in Bharti Tele-Ventures and Bharti Telecom, respectively, prior to the Offering. Pastel Limited has subscribed and paid for US$75 million compulsorily convertible debentures of Bharti Telecom. These, subject to applicable regulations are convertible into 1,884,896 equity shares in the issued capital of Bharti Telecom, or at the option of Pastel, into 68.75 million equity shares of Bharti Tele-Ventures held by Bharti Telecom. If the debentures are converted into shares of Bharti Telecom, Pastel Limited will own 26.96% shares in Bharti Telecom. Such shares, together with its existing direct shareholding in Bharti Tele-Ventures, will represent an effective 31.63% of the total outstanding equity shares in Bharti Tele-Ventures prior to the Offering and an effective 28.46% after the Offering. However, if Pastel Limited acquires equity shares of Bharti Tele-Ventures from Bharti Telecom, it will own an effective 31.35% of the total outstanding equity shares of Bharti Tele-Ventures prior to the Offering and an effective 28.22% after the Offering.

(4) Brentwood Investment Holdings Limited is the investment company of Warburg Pincus.

For additional details on the Company's shareholding, see "Capital Structure".

***History and Major Events***

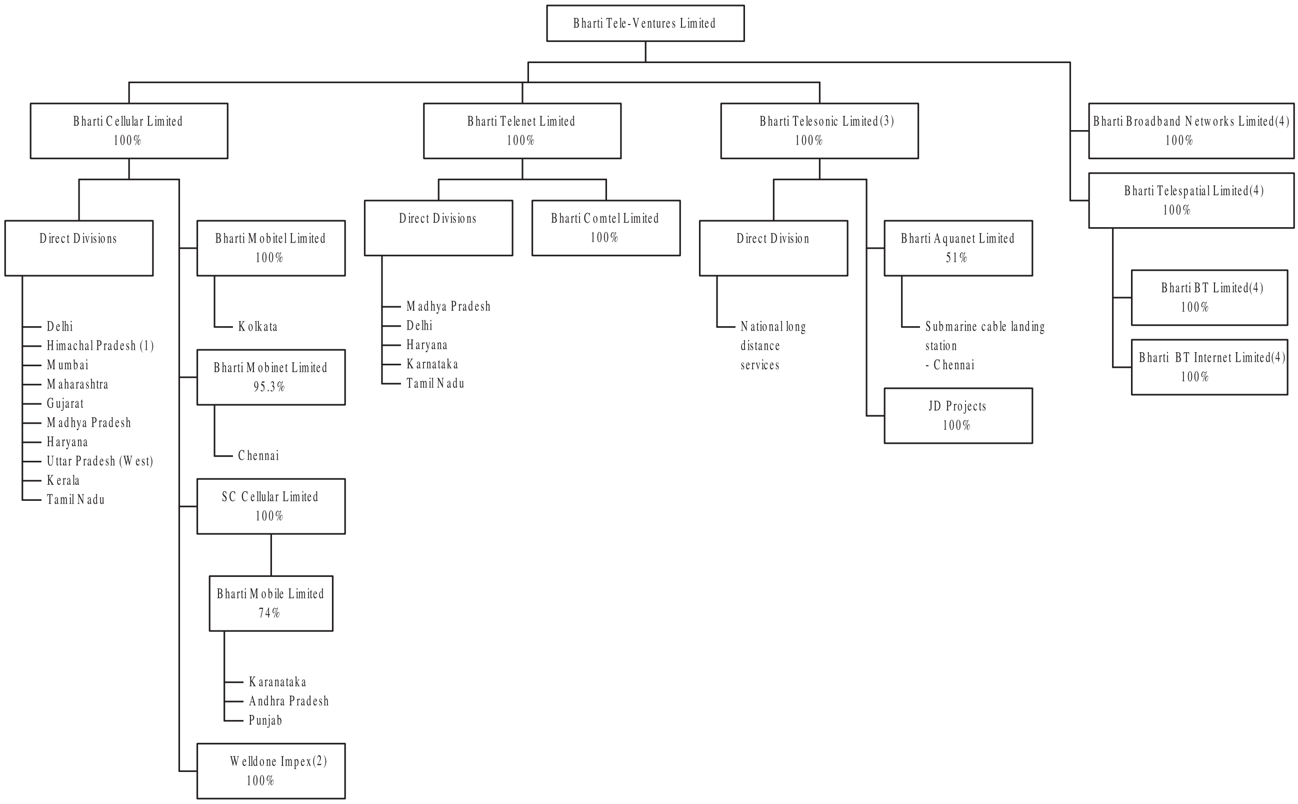
The Company was initially formed as a wholly-owned subsidiary of Bharti Telecom Limited. The chronology of events since Bharti Tele-Ventures was incorporated in 1995 is as follows:

| Calendar year | Events |
|---|---|
| 1995 | • Bharti Cellular launched cellular services 'AirTel' in Delhi |
| 1996 | • STET International Netherlands NV, or STET, a company promoted by Telecom Italia, Italy acquired a 20% equity interest in Bharti Tele-Ventures |
| | • Bharti Telenet launched cellular services in Himachal Pradesh |
| 1997 | • British Telecom acquired a 21.05% equity interest in Bharti Cellular |
| | • Bharti Telenet obtained a license for providing fixed-line services in Madhya Pradesh circle |
| | • Bharti Telecom and British Telecom formed a 51% : 49% joint venture, Bharti BT, for providing VSAT services |
| 1998 | • Bharti Telecom and British Telecom formed a 51% : 49% joint venture, Bharti BT Internet for providing Internet services |
| | • First Indian private fixed-line services launched in Indore in the Madhya Pradesh circle on June 4, 1998 by Bharti Telenet thereby ending fixed-line services monopoly of DoT (now BSNL) |
| 1999 | • Warburg Pincus (through its investment company Brentwood Investment Holdings Limited) acquired a 19.05% equity interest in Bharti Tele-Ventures |
| | • Bharti Tele-Ventures (by acquiring a 63.45% equity interest in SC Cellular Holdings) acquired an effective 32.36% equity interest in Bharti Mobile (formerly JT Mobiles), the cellular services provider in Karnataka and Andhra Pradesh circles |
| | • New York Life Insurance Fund, or NYLIF, acquired a 3% equity interest in Bharti Cellular |

| Calendar year | Events |
|---|---|
| 2000 | • Bharti Tele-Ventures acquired an effective equity interest of 40.5% in Bharti Mobinet (formerly Skycell Communications), the cellular services provider in Chennai<br>• Bharti Tele-Ventures acquired a 30.2% equity interest of Telecom Italia in Bharti Telenet and 18.8% from Bharti Telecom thereby making Bharti Telenet a 100% subsidiary of Bharti Tele-Ventures<br>• SingTel (through its investment company Pastel Limited) acquired STET's 15.3% equity interest in Bharti Tele-Ventures<br>• Bharti Tele-Ventures acquired an additional effective 41.64% equity interest in Bharti Mobile (by acquiring the remaining 36.55% equity interest in SC Cellular) resulting in Bharti Tele-Ventures holding an effective 74% equity interest in Bharti Mobile. |
| 2001 | • Bharti Tele-Ventures acquired NYLIF's 3% equity interest in Bharti Cellular<br>• Bharti Telesonic entered into a joint venture, Bharti Aquanet, with SingTel for establishing a submarine cable landing station at Chennai<br>• Bharti Tele-Ventures issued additional equity for approximately US$ 481.30 million to SingTel, Warburg Pincus, AIF group, IFC, NYLIF, and Seejay Cellular and Bharti Telecom<br>• Bharti Cellular acquired a 100% equity interest in Bharti Mobitel (formerly Spice Cell ), the cellular services provider in Kolkata<br>• Bharti Tele-Ventures acquired 85% and 15% in Bharti Telespatial from Bharti Telecom and Intel, respectively<br>• Bharti Tele-Ventures acquired a 44% equity interest in Bharti Cellular from British Telecom, thereby making Bharti Cellular its 100% subsidiary<br>• Bharti Tele-Ventures acquired an additional 49% equity interest in Bharti Mobinet from Millicom International and BellSouth International, thereby owning 89.5% equity interest in Bharti Mobinet, which was further increased to 95.3% following an issuance of additional equity shares by way of rights issue<br>• Punjab license restored to Bharti Mobile by the DoT and migration to NTP- 1999 accepted<br>• Bharti Cellular entered into license agreements to provide cellular services in eight new circles following the fourth operator cellular license bidding process<br>• Bharti Telenet entered into license agreements to provide fixed-line services in the Haryana, Delhi, Tamil Nadu and Karnataka circles<br>• Bharti Telesonic entered into a license agreement with the DoT to provide national long distance services across India<br>• Bharti Aquanet, Bharti Telesonic and Bharti Cellular entered into license agreements with the DoT to provide ISP services in India<br>• Bharti Telesonic launched national long distance services under the brand name of "IndiaOne"<br>• Bharti Telenet launched fixed line services in Haryana under the brand name of "TouchTel" |

***Our Corporate Structure***

Our existing and proposed corporate shareholding structure is as under:




Note:

(1) Currently the license to provide cellular services in Himachal Pradesh is held by Bharti Telenet. We have applied to the DoT to transfer the Himachal Pradesh cellular license from Bharti Telenet to Bharti Cellular.

(2) Well Done Impex is in the process of being amalgamated with Bharti Cellular pursuant to a court directed amalgamation process in accordance with Indian laws.

(3) Bharti Telesonic is held 70% by Bharti Tele-Ventures and 30% by Bharti Telenet.

(4) Bharti Telespatial, Bharti BT and Bharti Broadband Networks are in the process of being amalgamated with Bharti BT Internet and the merged entity shall be renamed as Bharti Broadband Networks, pursuant to a court directed amalgamation process in accordance with Indian laws.

**Our Main Objects**

As set out in the Memorandum of Association of Bharti Tele-Ventures, our main objects are as follows:

1. To promote and establish companies, funds, associations or partnerships for providing telecom networks and/or to run and maintain telecom services like basic/fixed-line services, cellular/mobile services, paging, videotext, voice mail and data systems, private switching network services, transmission network of all types; computer networks i.e. local area network, wide area network, electronic mail, intelligent network, multimedia communication systems or the combinations thereof and for execution of undertakings, works, projects or enterprises in the telecom industry whether of a private or public character or any joint venture with any government or other authority in India or elsewhere and to acquire and dispose of shares/securities in such companies, and funds and interest in such associations or partnerships.

2. To provide telecom networks and to run and maintain telecom services like basic/fixed-line services, cellular/mobile services, paging, video-text, voice mail and data systems, private switching network services, transmission networks of all types, computer networks like local area network, wide area network, electronic mail, intelligent network, multimedia communication systems or combinations thereof.

3. To carry on the business of manufacturers, merchants, dealers, distributors, importers, exporters, buyers, sellers, agents and stockists, and to market, hire, lease, rent out, assemble, alter, install, service, design, research and improve, develop, exchange, maintain, repair, refurnish, store and otherwise deal in any manner in all types of telephone exchanges, telephone instruments -whether corded, cordless, mobile or of any other kind; tele-terminals, fax machines, telegraphs, recording instruments and devices, telephone message/answering machines and devices; dialling machines, trunk dialling barring devices, wireless sets and other wireless communication devices like radio pagers, cellular phones, satellite phones etc; telecom switching equipments of all kinds; telecom transmission equipments of all kinds, test equipments, instruments, apparatus, appliances and accessories and equipment and machinery for the manufacture thereof and to provide technical services in respect thereof or relating thereto.

4. To buy, sell, manufacture, assemble, repair, design, alter, research and improve, develop, exchange, warehouse, let on hire, import, export, and deal in all sorts of electronic, non-electronic, computerized and electrical items and equipment including computer and data processing equipment, peripherals, printers, disc-drives, intelligent terminals, modems, software, hardware, personal computers, CAD/CAM computer, graphic systems, office automation equipments, word processors, photo setting, text editing and electronic printing and/ or typing systems, circuits, including integrated, hybrid, VLSI chips, microprocessors and microprocessor based equipment, semiconductor memories including bubble memories, discrete electronic devices, facsimile equipments, copying machines, Xerox machines, telephone cable pressurization systems, printed circuit boards, all sorts of automatic float charges, electronic, electrical and computerised systems and equipment and plant and machineries and field engineering support and for all above, their incidental and allied equipment, accessories, components, parts, sub-parts, tools, manufactured and semi manufactured goods, raw materials, plant and machineries, substance, goods, articles and things and VCR, VCP, cassettes, cameras, radios, stereo and amplifiers, television sets, audio visual equipment, teleprinters, telecommunications satellite station and electronic equipment, remote control systems, business machines, calculators, hoists, elevators, trolleys and their components including valves, transistors, resistors, condensors, coils and circuits.
5. To guarantee/counter guarantee the obligations of any of its subsidiary/associate/group companies and/or other companies in which the Company has equity interest under any agreements/ contracts/ debentures, bonds, stocks, mortgages, charges and securities.

***Our subsidiaries and their businesses***

Our cellular, access, national long distance and broadband businesses are provided by our subsidiaries namely:

| Business | Entity |
|---|---|
| Cellular | Bharti Cellular in respect of nine circles, Bharti Mobile in respect of three circles, Bharti Mobinet in respect of the Chennai circle, Bharti Mobitel in respect of the Kolkata circle and Bharti Telenet in respect of the Himachal Pradesh circle |
| Access | Bharti Telenet |
| Long distance | Bharti Telesonic |
| Broadband | Bharti Broadband Networks |

- Cellular

Bharti Cellular was incorporated on March 20, 1992 under the laws of India. Bharti Telenet was incorporated on November 8, 1993 under the laws of India.

Bharti Cellular, either on its own or through its existing or proposed subsidiaries, currently provides cellular services in six existing circles in India and has entered into license agreements with the DoT to provide cellular services in nine additional circles.

The licenses in our six existing circles are held as follows:

- Bharti Cellular is the licensee in respect of the Delhi circle;
- Bharti Telenet is the licensee in respect of the Himachal Pradesh circle.We have applied in June 2001 to the DoT for permission to transfer this license to Bharti Cellular;
- Bharti Mobile is the licensee in respect of the Andhra Pradesh and Karnataka circles. SC Cellular, a subsidiary of Bharti Cellular, holds 74% of the equity capital of Bharti Mobile.
- Bharti Mobinet, an 95.3% subsidiary of Bharti Cellular, is the licensee in respect of the Chennai circle; and
- Bharti Mobitel, a wholly-owned subsidiary of Bharti Cellular, is the licensee in respect of the Kolkata circle.

Bharti Cellular is the licensee in respect of eight cellular licenses we have entered into in September 2001. For further details, see “Government Approvals and Licensing Arrangements”. The ninth license is the restored Punjab license, which is held in the name of Bharti Mobile.

Subject to receipt of any approvals, we intend to carry on all our cellular businesses through Bharti Cellular and, subject to any rights of minority shareholders in our operating subsidiaries, we intend to hold a 100% equity interest in them. Bharti Cellular also has a 100% equity interest in Welldone Impex (India) Limited, which owns the office building of our Delhi operations. Presently, pursuant to a court directed amalgamation process under Indian laws, Welldone Impex is being merged with Bharti Cellular.

- Access

Bharti Telenet was incorporated on November 8, 1993 under the laws of India.

Bharti Telenet currently provides fixed-line services in the Madhya Pradesh and Haryana circles and intends to provide fixed-line services in three additional circles of Delhi, Karnataka and Tamil Nadu. Bharti Telenet has entered into license agreements with the DoT for these circles. For further details, see “Governmental Approvals/Licensing Arrangements”. Each of these operations will be organized as separate divisions within Bharti Telenet. In addition, Bharti Telenet has a 100% equity interest in Bharti Comtel Limited, which owns the office building of our access operations in Gurgaon in the State of Haryana.

- *Long distance*

Bharti Telesonic was incorporated on July 27, 2000 under the laws of India.

Bharti Telesonic has entered into a licence agreement with the DoT to provide national long distance services across India.

Bharti Aquanet was incorporated on October 3, 2000 under the laws of India. Bharti Aquanet is presently constructing a submarine cable landing station in Chennai to provide international bandwidth access for data transmission services. The share capital of Bharti Aquanet is held in the ratio of 51%:49% by Bharti Telesonic and SingTel i2i Pvt. Limited, or SingTel i2i, respectively.

In addition to data transmission services, Bharti Telesonic also intends to provide international long distance services for carrying voice traffic once this sector is opened for private sector participation and if the terms and conditions are favourable to us.

- Broadband

  We currently provide VSAT based communication services through Bharti BT, internet access services through Bharti BT Internet and network solutions.

  Upon the completion of the amalgamation of Bharti Telespatial, Bharti BT and Bharti Broadband Networks with Bharti BT Internet, the surviving company, Bharti BT Internet (which will be renamed as Bharti Broadband Networks) will be a 100% subsidiary of Bharti Tele-Ventures. Bharti Broadband Networks intends to provide end-to-end network solutions for data and voice communications, which will also include our present range of VSAT and Internet services.

***Our Shareholders Agreements***

**(A) Bharti Tele-Ventures shareholders agreement**

The principal shareholders of Bharti Tele-Ventures comprising SingTel, Brentwood and Bharti Telecom have entered into a shareholders agreement dated September 12, 2000, as amended pursuant to an amendment agreement dated June 19, 2001. The principal provisions of the agreement, as amended, are as follows:

*Board of directors*

The size of the Board of directors, or the Board, shall be no less than eight directors and no more than thirteen directors unless a greater number of directors is required to be appointed to include persons nominated by the financial institutions who are creditors of Bharti Tele-Ventures; to appoint independent directors to comply with the provisions of a stock exchange listing agreement; or to ensure that a majority of the directors are nominated by Bharti Telecom. The maximum number of directors as per the Articles of Association is 18 directors. The existing strength of the Board is 15.

Each of the shareholders who is a party to the Bharti Tele-Ventures shareholders agreement is entitled to nominate directors on the Board in the following manner:

(a) SingTel nominee

SingTel shall be entitled to nominate such number of directors to the Board as is the higher of (x) the proportion that its shareholding bears to the then issued and outstanding equity shares of Bharti Tele-Ventures (rounded up or down to the nearest whole number) and (y) the number determined in accordance with the following formula:

| Direct shareholding | | Number of directors |
|---|---|---|
| Not less than 137,500,000 equity shares of Bharti Tele-Ventures | : | One |
| Between 15% and 25% of the outstanding equity shares of Bharti Tele-Ventures | : | Two |

Provided that, if SingTel's shareholding is not less than 10% of the outstanding equity shares of Bharti Tele-Ventures and it directly owns not less than 137,500,000 equity shares of Bharti Tele-Ventures, it shall have the right, at all times, to nominate at least one director.

(b) Bharti Telecom's nominee

Subject to SingTel's right to appoint at least one director, Bharti Telecom is entitled to nominate directors to the Board in the proportion that its shareholding (alongwith its affiliates) bears to the then total issued and outstanding equity shares of Bharti Tele-Ventures, provided that if the direct shareholding of Bharti Telecom and its affiliates exceeds 26% of the outstanding equity shares of Bharti Tele-Ventures, Bharti Telecom shall have the right to nominate such minimum number of directors as is necessary to constitute a simple majority of the Board.

(c) Brentwood's nominee

Brentwood shall be entitled to nominate directors to the Board in accordance with the following formula:

| *Direct shareholding* | | *Number of directors* |
|---|---|---|
| Not less than 137,500,000 equity shares of Bharti Tele-Ventures | : | One |
| Between 15% and 25% of outstanding equity shares of Bharti Tele-Ventures | : | Two |

Meeting of the Board

The Board is required to meet at least once in each quarter. The quorum required for the Board meeting is one third of the total strength of the Board and at any meeting where a general reserved matter is to be discussed, the presence of at least one director nominated by SingTel and at least one director nominated by Brentwood shall be required to constitute the quorum of that meeting. The Board may adopt resolutions, except for the General Reserved Matters, by a simple majority. A general reserved matter requires the approval of Board nominees of SingTel and Brentwood, provided that SingTel's nominee's approval is not required in the event that at such time (x) SingTel shareholding is less than 12.5% and (y) SingTel's direct shareholding is less than 137,500,000 equity shares of Bharti Tele-Ventures and Brentwood's nominee's approval is not required in the event that at such time Brentwood's nominee's direct shareholding is less than 137,500,000 equity shares of Bharti Tele-Ventures. For the list of general reserved matters, see "General Reserved Matters" below.

*Audit committee*

Under the Bharti Tele-Ventures shareholders agreement, the Company has an obligation to establish an audit committee and each of SingTel and Brentwood have a right to appoint a member to such committee.

*Business Review and Investment Committee*

The parties to the Bharti Tele-Ventures shareholders agreement have agreed to establish an executive management committee called the Business Review and Investment Committee, or BRIC, that shall be responsible for reviewing and making decisions on any BRIC matter relating to the Company or its subsidiaries. The BRIC shall consist of at least five members, who shall be appointed as follows:

(a) SingTel is entitled to nominate its representative in proportion to its direct shareholding in Bharti Tele-Ventures and the then-issued and outstanding equity shares of Bharti Tele-Ventures, provided however, if SingTel has the right to appoint at least one nominee director, it shall also have the right to nominate at least one member of the BRIC.

(b) Brentwood is entitled to nominate its representative in proportion to its direct shareholding in Bharti Tele-Ventures and the then-issued and outstanding equity shares of Bharti Tele-Ventures, provided however, if Brentwood's direct shareholding is not less than 137,500,000 equity shares of Bharti Tele-Ventures, it shall have the right to nominate at least one member of the BRIC.

(c) Subject to each of SingTel's and Brentwood's right to nominate at least one member of the BRIC, if the direct shareholding of Bharti Tele-Ventures and its affiliates exceeds 26% of the then-issued and outstanding equity shares of Bharti Tele-Ventures, then Bharti Telecom shall have the right to nominate such minimum number of BRIC members as is necessary to constitute a simple majority of the members of the BRIC.

A shareholder that is a party to the Bharti Tele-Ventures shareholders agreement or a director or any member of the BRIC can request for meetings of the BRIC to be held upon a minimum 10 days' notice. All decisions other than the general reserved matters will be by the affirmative vote of a simple majority of the members present. Each member is entitled to one vote. The quorum of a meeting of the BRIC is a simple majority of the members. If the BRIC matter is also a general reserved matter, then a quorum of the BRIC meeting shall not be present unless a nominee of both SingTel and Brentwood is present and no such general reserved matter shall be approved in the absence of either the SingTel nominee or the Brentwood nominee.

If SingTel or Brentwood does not approve any general reserved matter then the SingTel nominee or the Brentwood nominee shall provide the BRIC with its reasons for not approving such matter. If any proposal is approved by the BRIC, then the BRIC shall provide a report to the Board recommending that the Board approve such proposal. Any BRIC matter, other than a general reserved matter, that is approved by BRIC but has not been approved by the nominee of SingTel and/or Brentwood, shall be recommended to the Board and accompanied by reasons of refusal of the SingTel's or Brentwood's nominee. If any proposal is not approved by BRIC, then a report shall be presented to the Board by the BRIC recommending that the Board also reject such proposal.

If there is a deadlock at the Board or BRIC meetings, the matter will be referred to the Chief Executive Officer of SingTel, a director of Brentwood and the Chairman of Bharti Telecom for discussion and resolution of the matter in good faith. The Board or the BRIC will meet again within 14 days after the first voting on the matter. If the matter does not receive the vote of a simple majority at the subsequent meeting, such matter shall be deemed not approved.

For BRIC matters, see "BRIC matters" below.

*Shareholder Meetings*

The Articles of Association of the Company and the applicable law shall govern all general meetings of the shareholders. After the initial public offering, the provisions of the Companies Act shall apply in relation to the quorum requirements for any general meeting. The Chairman will not have any casting vote.

*Approval of Investments*

Any proposed project or investment by the Company and any of its subsidiaries in India, the SAARC Region, or in any Indian Ocean Rim Countries in mobile telephony, fixed-line telephony, long distance telephony, VSAT services, ISP, portal services or corporate data network services or any other telecommunications services shall require the approval of SingTel and Brentwood in the manner set forth below:

(a) if an investment in a new or existing project is less than or equal to the result of US$225,000,000 divided by the debt equity factor (as described below) of the project, the investment must be approved by a simple majority of the BRIC; and

(b) if an investment in a new or existing project is greater than the result of US$225,000,000 divided by the debt equity factor of the project, and less than or equal to the result of US$450,000,000 divided by the debt equity factor of the project, the investment must be approved by a simple majority of the BRIC if certain investment criteria are met or, where not all of the investment criteria are met, by 75% of the members of the BRIC including the affirmative vote of at least one member nominated by SingTel or Brentwood.

In addition, the prior written consent of SingTel and Brentwood is required before making :

(a) any investment or series of investments in a new or existing project if Bharti Tele-Ventures' total projected equity investment during the first three years of the project is greater than the result of US$450,000,000 divided by the debt equity factor of the project; or

(b) any investment or series of investments in any successive twelve month period in one or more new or existing projects that would, either singly or in the aggregate, involve total projected equity investments by Bharti Tele-Ventures during the first three years of the projects exceeding US$500,000,000 (excluding any investments made by Bharti Tele-Ventures in any domestic long distance business in India).

For these purposes, the debt equity factor of a project is the greater of (i) three and (ii) the debt equity ratio of the project plus one.

The proposed project or investment will not require approval of:

(a) SingTel, if its direct and indirect shareholding in Bharti Tele-Ventures is less than 15% and its direct shareholding is Bharti Tele-Ventures less than 137,500,000 equity shares of Bharti Tele-Ventures; and

(b) Brentwood, if its direct shareholding is less than 137,500,000 equity shares of Bharti Tele-Ventures.

*Restrictions on the Transfer of Shares, Right of First Refusal and Tag Along Rights*

The Bharti Tele-Ventures shareholders agreement provides for certain restrictions on transfer of equity shares such as a first right of refusal, tag-along rights, rights of pre-emption to be exercised by the shareholders who are parties to the agreement. The principal terms of such rights are as follows:

(a) SingTel and Bharti Telecom (together with its affiliates) have a first right of refusal in the event that the other proposes to transfer its equity shares in Bharti Tele-Ventures. SingTel may exercise its right of first refusal if:

- the equity shares offered for sale by Bharti Telecom and its affiliates are more than 10% of the total issued and outstanding equity shares of Bharti Tele-Ventures;
- the direct shareholding of Bharti Telecom and its affiliates in Bharti Tele-Ventures would fall below 26% as a result of the offer for sale of their equity shares in Bharti Tele-Ventures;

- the prospective buyer is a person engaged in the business of providing telecommunications services;
- the shareholding of any entity (other than Bharti Telecom or SingTel) would, as a result of the proposed transfer, exceed the shareholding of SingTel.

(b) SingTel has a right of first refusal in equity shares in any subsidiary of Bharti Tele-Ventures, if such equity shares are offered for sale by Bharti Tele-Ventures.

In the event that Bharti Telecom or its affiliates propose to sell their equity shares in Bharti Tele-Ventures, SingTel and Brentwood have certain tag along rights to participate in such proposed sale as follows:

- SingTel has a tag along right if Bharti Telecom or its affiliates propose to sell in the aggregate 10% or more of the then issued and outstanding equity share capital of Bharti Tele-Ventures or if, following such proposed sale, the shareholding of Bharti Telecom and its affiliates in Bharti Tele-Ventures would fall to below 50% of the outstanding equity share capital of Bharti Tele-Ventures; and
- Brentwood has a tag along right if, following such proposed sale, the shareholding of Bharti Telecom and its affiliates in Bharti Tele-Ventures would fall to below 50% of the outstanding equity share capital of Bharti Tele-Ventures.

Brentwood is free to transfer all or part of its shareholding to any person subject to the following :

- No rights will be transfered to such third party under the Bharti Tele-Ventures‘ shareholders agreement;
- If Brentwood transfers 4.9% or more of its holding to any Telco or Telecoms Operator prior to the initial public offering of Bharti Tele-Ventures shares, the prior written approval of both Bharti Telecom and SingTel would be required; or
- The prior written approval of both Bharti Telecom and SingTel would be required if Brentwood transfers all or part of its holding otherwise than through a relevant stock exchange subsequent to the initial public offering of Bharti Tele-Ventures' shares.

  In the event that SingTel or Brentwood has a tag along right with respect to a proposed sale by Bharti Telecom or its affiliates, they shall be entitiled to participate in the sale on a *pro rata* basis; provided that if, following such sale, the direct shareholding of Bharti Telecom and its affiliates in Bharti Tele-Ventures would fall to below 26%, each of SingTel and Brentwood shall be entitled to sell upto all their equity shares of Bharti Tele-Ventures in the proposed sale.

(c) The shareholders who are party to the Bharti Tele-Ventures' shareholders agreement have a right of first refusal with respect to new equity shares to be issued by Bharti Tele-Ventures' subsidiaries.

(d) Bharti Telecom has undertaken that it shall, for a minimum period of three years after the date of the \shareholders agreement, maintain the collective direct shareholding of Bharti Telecom and its affiliates at 26% and maintain management control of Bharti Tele-Ventures during such period.

(e) SingTel has agreed that it shall not, without prior notice to Bharti Telecom, transfer its equity shares of Bharti Tele-Ventures to a person engaged in the business of providing telecommunications services.

(f) SingTel has undertaken to not acquire a direct or indirect-equity interest in Bharti Tele-Ventures greater than the equity interest held by Bharti Telecom, subject to (i) any bona fide portfolio investment related purchases made in Bharti Tele Ventures' listed shares in the open market, up to a maximum of 2% in aggregate of Bharti Tele-Ventures' issued and outstanding share capital or any similar bona fide investment up to a maximum of 2% in aggregate in Bharti Telecom's shares, and (ii) SingTel exercising its rights of first refusal in accordance with the shareholders agreement in respect of Bharti Tele-Ventures.

(g) Brentwood has undertaken to not acquire an equity interest in Bharti Tele-Ventures greater than 25%, subject to the conditions that (i) at the time of acquisition SingTel has a direct shareholding of 5% or more or a shareholding of 10% or more, and (ii) at the time of such acquisition, Bharti Telecom has a direct shareholding of 5% or more.

*Partnership commitments*

The Bharti group of companies and SingTel have agreed to make use of their respective reasonable efforts to explore with the other business opportunities in the area of development in the operation of a submarine cable project between Chennai and Singapore and in setting up an international call centre. All investments in such projects shall be made by Bharti group of companies through Bharti Tele-Ventures. Except for the opportunity for investment in development of the operation of a submarine cable project between Chennai and Singapore and in setting up an international call centre, opportunities for doing business in India involving cellular, fixed-line or international communication or national long distance operations (including any corporate data network service and any investment in an existing telecommunications business in which Bharti Telecom or the company has an investment or interest) shall be offered to Bharti Tele-Ventures by either the SingTel group or the Bharti group of companies (excluding Bharti BT Internet).

In the event that Bharti Tele-Ventures does not intend to pursue the investment opportunity offered then in that case, where the opportunity is being offered by the Bharti group of companies, then Bharti group of companies shall offer the investment opportunity to the SingTel group member and in case the offeror is SingTel group then it shall offer the investment opportunity to the Bharti group of companies. In case the offeree fails to express its intentions to pursue such opportunity then the offeror may pursue such investment opportunity alone or with another third party. So long as Brentwood has a direct shareholding of not less than 137,500,000 Bharti Tele-Ventures shares at any time prior to August 6, 2002, and Bharti Tele-Ventures fails to pursue the investment opportunity then none of the Bharti group of companies other than Bharti Tele-Ventures and its subsidiaries may pursue or participate in such investment; provided that in the event that such opportunity is rejected solely due to the negative vote of Brentwood where both Bharti Telecom and SingTel vote in favour of Bharti Tele-Ventures, the restriction on the Bharti Group of companies shall not apply. In the event, Bharti Tele-Ventures rejects the offer as a result of Bharti Telecom or SingTel's negative vote then none of the Bharti group members (other than Bharti Tele-Ventures and its subsidiaries) may pursue or participate in such investment.

*Non-compete with Bharti Tele-Ventures' national long distance, corporate data, corporate mobile business*

In the event that the Company offers services in the national long distance, corporate data network or cellular services businesses either directly or indirectly pursuant to valid licenses and authorisations, SingTel and the Bharti Group of companies have agreed not to compete with such services offered by the Company.

Brentwood does not have any role to play in the operating companies including in the domestic long distance business and corporate data network business. They have rights with respect to such companies under the Bharti Tele-Ventures' shareholders agreement detailed in this Section.

*General Reserved Matters*

The following general reserved matters require the approval of the SingTel nominee and Brentwood, provided that the SingTel nominee's approval shall not be required in the event that at such time, (x) the SingTel's shareholding is less than 12.5%, and (y) the SingTel's direct shareholding in Bharti Tele-Ventures is less than 137,500,000 equity shares, and Brentwood's approval shall not be required in the event that at such time Brentwood's direct shareholding is less than 137,500,000 equity shares:

(i) any changes to the Memorandum and Articles of Association of the Company or any of its subsidiaries provided that this shall not apply to any such changes that are necessary to give effect to the terms of these Articles;

(ii) the taking of any steps relating to the bankruptcy, liquidation, winding-up or dissolution of the Company or any of its subsidiaries;

(iii) any decision relating to any amalgamation or merger of the Company or any of its subsidiaries;

(iv) any issuance of new shares in or any issuance of warrants or options to acquire shares or securities convertible to or exchangeable for shares of the Company or any of its subsidiaries unless, at any time after the conversion date of SingTel's convertible debentures, by way of a rights issue to Bharti Group, provided that SingTel and /or Brentwood would not be restricted by reason of Indian Law, regulatory authority or agreement from exercising all of its rights in respect of such rights issue, or except to the extent covered or envisaged in an approved business plan or by way of a public offering of the shares of the Company or any of its subsidiaries, provided that, with respect to the SingTel in the case of such public offering, Bharti shall procure that the Bharti group entities provide a prior written guarantee to SingTel that SingTel's shareholding in the Company at the close of such public offering shall, at SingTel's option, be maintained at not less than 20% of the then issued and outstanding equity shares after giving effect to such public offering. In order to comply with the preceding sentence, Bharti shall, at the request of SingTel, either ensure that sufficient shares are allotted to SingTel as part of the public offering or cause to be sold to SingTel from the holdings of the Bharti Group that number of shares of Bharti Telecom and/ or equity shares of Bharti Tele-Ventures as are necessary to ensure that SingTel shall maintain at least a 20% direct or indirect shareholding in Bharti Tele-Ventures after giving effect to the public offering. The shares shall be sold to SingTel at a price agreed, such price not to be above the price of the public offering;

(v) redemption of any of the Company's shares unless such redemption is contemplated between the principal shareholders on the basis of their respective shareholding;

(vi) any encumbrance granted or created by the Company or any of its subsidiaries in or over its respective assets, properties or rights to or for the benefit of any third party other than the Company and its subsidiaries or any person controlled by the Company;

(vii) the grant by the Company or any of its subsidiaries of loans or facilities or credit to or the incurrence of any contingent liability on behalf of or for the benefit of any individual or entity in excess of US$50,000 in a single transactions or in aggregate in a series of transactions, unless in the ordinary course of business or to a subsidiary;

(viii) any acquisition or series of related acquisitions, or any investment or series of related investments, by the Company or any of its subsidiaries of or in any shares, interest or assets of another person or any other asset including treasury assets, in excess of US$10,000,000 (ten million) in aggregate unless it relates to a project approved in the manner described under the section "Approval for Invesments" above, or unless the investment is one of certain permitted investments approved by the board (for the avoidance of doubt, the review and approval of all investment guidelines, including guidelines with respect to treasury activities, must be reviewed and approved by the Board);

(ix) commencement of any new business or the participation in a joint venture or similar enterprise by the Company or any of its subsidiaries that will require funding of more than US$10 million during the first three years of operation of such business, joint venture or enterprise unless it relates to a project approved in the manner described under the head "Approval for Invesments" above;

(x) any declaration or payment of a dividend by the Company or any of its subsidiaries that deviates from the amount determined in accordance with the approved dividend policy of the Company or any of its subsidiaries; any declaration or payment of a dividend by the Company or any of its subsidiaries in the case that there is no approved dividend policy for the Company or such subsidiary; any establishment of a dividend policy of the Company or any of its subsidiaries; or any material change to any dividend policy of the Company or any of its subsidiaries;

(xi) entry by the Company into any transaction or series of transactions having a value in aggregate in excess of US$50,000 with a shareholder or any other person related to the Company or a shareholder, or by any subsidiary of the Company into any transaction or series of transactions having a value in aggregate in excess of US$50,000 with a shareholder of such subsidiary or with the Company or another subsidiary or their respective shareholders or any other person related to such subsidiary or its shareholders or related to the Company or another subsidiary or any of their respective shareholders;

(xii) approval of all annual business plans and budgets for the Company and each of its subsidiaries and approval of any amendments to an approved business plan which may have the effect of:

   (A) increasing the overall debt to equity ratio, for the period covered by such approved business plan, beyond 2:1; or

   (B) increasing the equity of the Company beyond 10% of the maximum equity of the Company in the earlier approved business plan.

(xiii) disposal, by way of a transaction or series of transactions of assets by the Company or any of its subsidiaries (including, in relation to the Company, shares or other interests held by the Company in its subsidiaries or in any other persons) unless, other than in respect of shares or other interests held by the Company in its subsidiaries, the disposal is of assets with a net book value below US$10,000,000;

(xiv) application for any material modification to or cancellation of an existing licence or approval granted by the Department of Telecommunications, Government of India, which has an adverse effect on the Company or any of its subsidiaries; and

(xv) any material change to any approved accounting policy or financial policy of the Company.

*BRIC Matters*

(1) Review of the monthly and annual financial performance of Bharti Tele-Ventures and each of its subsidiaries;

(2) Review of any capital expenditure variances equal to or exceeding 10% of the capital expenditure budgeted for in the approved business plan and also review of capital expenditure variances equal to or exceeding 5% if the capital expenditure relates to items not budgeted for in the approved business plan;

(3) Review of any financing offers or banking facilities made available to Bharti Tele-Ventures and review of all the liabilities of Bharti Tele-Ventures (such review to be based upon any relevant policies and directions of the Board);

(4) Review of and recommendation for approval of any budget in respect of Bharti Tele-Ventures or any subsidiary of Bharti Tele-Ventures;

(5) All general reserved matters listed under the section "General Reserved Matters" above;

(6) The approval of any investment by Bharti Tele-Ventures in any new or existing project;

(7) Review of treasury investment guidelines in respect of Bharti Tele-Ventures or any of its subsidiaries; and

(8) Any matter deemed significant in terms of operations or strategy by the BRIC.

*Initial public offering.*

- Bharti Tele-Ventures has agreed that it shall use all its reasonable efforts to complete a public offering of its equity shares and a listing on a stock exchange prior to October 31, 2001. In the event that prior to January 31, 2002, Bharti Tele-Ventures is unsuccessful, unwilling, or otherwise fails to complete a public offering of equity shares of Bharti Tele-Ventures and a listing on a stock exchange then, so long as Brentwood does not hold less than 137,500,000 equity shares of Bharti Tele-Ventures, Brentwood has the right, and so long as SingTel holds not less than 137,500,000 equity shares of Bharti Tele-Ventures then SingTel has the right, subject to the provisions of the shareholders agreement, to sell all or part of its shareholding by causing the Company, upon three months' notice to undertake an initial public offering and list the equity shares of Bharti Tele-Ventures held by Brentwood and/ or SingTel, as the case may be, in accordance with any applicable law. The shareholders who are party to the Bharti Tele-Ventures' shareholders agreement have agreed to procure that each of their nominees, including directors nominated by them, shall act to give effect to this provision to the fullest extent permitted by applicable law.
- In any public offering of equity shares of Bharti Tele-Ventures (including an initial public offering), Brentwood and SingTel shall have the right to include all or part of the Bharti Tele-Ventures' equity shares held by them.
- After the initial public offering, SingTel's shareholding, held directly or indirectly through Bharti Telecom, shall be not less than 20% of the issued and outstanding equity shares of the Company. To comply with this provision, Bharti Telecom has agreed to cause the Company to issue to SingTel such number of equity shares, or to itself (or through its affiliates) sell such number of equity shares to SingTel as would result in SingTel owning, directly or indirectly, not less than 20% of the issued and outstanding equity shares of Bharti Tele-Ventures. The price of equity shares issued or sold shall be mutually agreed, but in any event shall not be higher than the price of the initial public offering.

*Defaults and consequences of default*

The Bharti Tele-Ventures' shareholders agreement provides for events that constitute a default under the agreement and the consequence thereof. The Bharti Tele-Ventures' shareholders agreement further provides for a mechanism to redress any dispute, which initially through discussion among the parties and if such discussions are unsuccessful, by arbitration is conducted under the UNCITRAL Rules to be held at London.

**(B) Other agreements governing the corporate governance of Bharti Tele-Ventures**

Pursuant to an agreement between Bharti Tele-Ventures and Asian Infrastructure Fund, or AIF, dated July 13, 2001, AIF has the right to receive information, documents and materials that are provided to the members of the Board of Bharti Tele-Ventures. Representatives of AIF can be invited as observers at the Board meetings and can participate in the discussions without any right to vote. However, these rights shall cease to exist after Bharti Tele-Ventures completes a public offering.

Pursuant to a letter agreement dated February 22, 2001, Bharti Tele-Ventures has agreed to invite a nominee of NYLIF, to be a director of Bharti Tele-Ventures until such time as NYLIF maintains approximately 0.87% shareholding in Bharti Tele-Ventures. Further, Bharti Tele-Ventures has agreed to provide NYLIF with copies of the annual business plans, notices of material developments in business or prospects and the rights to discuss the affairs of the Company, finances and accounts of Bharti Tele-Ventures with its officers and employees.

Under an agreement between Bharti Tele-Ventures and International Finance Corporation, or IFC, dated July 18, 2001, IFC has the right to register equity shares of Bharti Tele-Ventures held by IFC on the stock exchanges where equity shares of Bharti Tele-Ventures are listed after an initial public offering. The entire share capital of Bharti Tele-Ventures, including the equity shares held by IFC, will be listed on the Indian Stock Exchanges after this Offering. Under the agreement, Bharti Tele-Ventures is required to use reasonable efforts to list its equity shares on a stock exchange within 36 months from the date of the agreement. Further, IFC has the right to offer its equity shares as part of an international offering, if any, that may be made by any of the shareholders of Bharti Tele-Ventures. IFC also has certain piggy back and tag along rights in the event of Bharti Tele-Ventures makes a private placement of more than 10% of its outstanding equity or in the event that Bharti Telecom transfers more than 2.5% of the outstanding equity capital of Bharti Tele-Ventures to a third party. In addition, Bharti Tele-Ventures has covenanted that, without informing IFC, it will not merge or consolidate or sell any of the companies that hold licenses or makes investments other than in the telecommunications industry.

**(C) Bharti Mobile joint venture agreement dated February 12, 1997**

On February 12, 1997, the shareholders of Bharti Mobile (formerly JT Mobiles) entered into a joint venture agreement wherein Bharti Mobile is a confirming party. As a result of acquiring an effective 74% equity interest in Bharti Mobile, Bharti Tele-Ventures has succeeded to the rights of certain of the shareholders under this agreement, other than Telia A.B. which continues to hold 26% of the equity of Bharti Mobile. As such all references to Bharti Tele-Ventures in the summary given below are in its capacity as successor-in-interest to United Telecoms Limited, Chemplast Sanmar Limited, Sanmar Electronics Corporation Limited, SC Cellular Holdings Limited, Jasmine International Public Company Limited and Telephone Organisation of Thailand, who are parties to the joint venture agreement dated February 12, 1997.

The shareholders agreement provides the manner in which the business of Bharti Mobile would be conducted by its shareholders.

*Issue and transfer of equity shares*

*Pre-emptive rights:* Under the agreement, each shareholder has the right to subscribe to newly issued equity shares of Bharti Mobile in proportion to the equity shares held by it.

*Transfer of equity shares:* Each shareholder has a right of first offer in respect of the proposed sale of equity shares of Bharti Mobile by any other shareholder.

*Initial public offering*

The agreement provides that Telia, may insist by a notice, at any time after February 11, 2002, to the other shareholder, which is our subsidiary S.C. Cellular, to list its Bharti Mobile equity shares on a stock exchange, unless otherwise agreed upon by the shareholders, within six months of such notice. Bharti Tele-Venture cannot excercise its right of first offer/refusal, in case, Telia goes for an offer for sale after February 12, 2002. The listing may be by a sale of equity shares held by Telia or by an initial public offering by Bharti Mobile, determined in consultation with merchant bankers.

*Shareholders to furnish guarantees for Bharti Mobile loans*

The shareholders are required to provide guarantees for Bharti Mobile loans in proportion to their existing shareholding.

*Composition of the Board*

- The Board of Directors of Bharti Mobile shall comprise nominees of the shareholders in the following manner:

| Nominees of | Number of directors |
|---|---|
| Telia A.B. | 4 |
| Bharti Tele-Ventures | 8 |
| **Total** | **12** |

*Decisions of the Board:*

The Board of Directors of Bharti Mobile may adopt resolutions by simple majority of votes except with respect to the following matters, which require the affirmative vote of Telia and Bharti Tele-Ventures:

- Any reorganisation of the share capital of Bharti Mobile, including any new issue of share capital or obligations convertible into equity shares, capitalisation or redemption of shares;
- Declaration and distribution of dividends in excess of 22% per share;
- Making of any loans or giving of any guarantees or indemnities by Bharti Mobile in excess of amounts provided in the business plan and/ or the approved annual budget;
- Taking of any loans or raising of any debt finance by Bharti Mobile;
- Sale or disposal of the whole or a substantial part of the assets of Bharti Mobile;
- Amalgamation or merger of Bharti Mobile with any other company;
- Any alterations or amendments to the Memorandum and Articles of Association of Bharti Mobile;
- Commencement of a new activity or business by Bharti Mobile or change in telecom circles or geographical areas of business;
- Formation of any subsidiary of Bharti Mobile;
- Acquisition by Bharti Mobile of any equity shares or investments in any other company;
- Licensing of technology, products and services by Bharti Mobile to third parties or by third parties to Bharti Mobile;
- Compromising or compounding with third parties any debts, claims or disputes concerning Bharti Mobile;
- Making of investments by Bharti Mobile;
- Sharing of investments and related guarantees and liabilities among Indian shareholders, foreign shareholders and Bharti Mobile for any other telecom projects and related services;
- Approval of the business plans and the annual budget for Bharti Mobile and the making of any expenditure in excess of 10% of any head of allocation approved by the directors of Bharti Mobile in the annual budget and business plan;
- Giving or granting of any lien or security interest over any asset of Bharti Mobile other than statutory items or items arising by operation of law;
- Tendering for and accepting any additional telecommunications license and surrendering any license;
- Determining the basis of tendering any bids;
- Any transaction between Bharti Mobile and any of the shareholders/ its nominee(s)/subsidiary(ies)/ holding company(ies)/ affiliate(s);
- Any contract whose value is in excess of US$1 million; and
- Appointment of the President and Executive Vice-President of Bharti Mobile.

*Shareholders' meeting*

Shareholders holding not less than 85% of the paid-up share capital shall constitute the quorum for a meeting of the shareholders.

*Non-competition*

Each shareholder has agreed that, during the term of the agreement or for a period of one year following any reduction of its shareholding to less than 10% or following the termination of this agreement, such shareholder shall not engage or be concerned directly or indirectly in the provision of any value added services or any product or services similar to or comparable to that offered by Bharti Mobile.

*Term of the agreement*

The agreement will remain in full force and in effect so long as Bharti Mobile is in existence. However, the parties may agree to terminate the agreement in writing. The agreement may also be terminated upon the failure to observe or perform any material obligations under the agreement.

In the event of material breach of terms and conditions, to the non-defaulting party, the defaulting party shall be liable to compensate Bharti Mobile and the non-defaulting party may elect to terminate the agreement. Upon such termination, the defaulting party is obligated to sell all of its equity shares in Bharti Mobile to the non-defaulting party at the lower of the book value and the fair market value.

The agreement also provides for a dispute resolution mechanism. The parties may resolve the disputes amicably failing which the dispute shall be referred to arbitration under International Chamber of Commerce, or ICC, rules. The arbitration will be conducted in Singapore.

**(D) Bharti Mobinet Joint Venture Agreement**

Subject to the outcome of pending litigations, the shareholders agreement between Crompton Greaves ("CGL"), Bellsouth, Millicom and DSS Enterprises ("DSS") dated August 12, 1992, provides the manner in which the business of Bharti Mobinet may be conducted by its shareholders. Bharti Tele-Ventures's interest in Bharti Mobinet is subject to the outcome of pending litigation. For further details, refer to 'Risk Factors" and "Outstanding Litigations".

Bharti Cellular acquired 89.5% of the outstanding equity of Bharti Mobinet from CGL, BellSouth and Millicom. The remaining 10.5% equity interest in Bharti Mobinet was held by DSS.

Pursuant to a recently held Board meeting under the chairmanship of a Court-appointed Chairman, Bharti Cellular subscribed to additional shares issued by Bharti Mobinet in a rights issue, thereby increasing its percentage ownership to 95.3%.

*Pre-emptive Rights*

Each shareholder shall have a pre-emptive right to subscribe for and purchase new equity shares in the share capital of Bharti Mobinet.

*Transfer of Shares*

Each shareholder has a right of first offer in respect of the proposed sale of Bharti Mobinet equity shares by the other shareholders.

*Meetings and Resolutions of Shareholders*

*Quorum*: A quorum shall be duly constituted only when the representative of each of CGL, Bellsouth, Millicom and DSS is present.

*Adoption of Resolutions*: Shareholders may adopt resolutions by a majority vote except in the following instances, where a vote of 80% of the outstanding Bharti Mobinet equity shares will be entitled to vote:

- any change to the Articles or the Memorandum of Association of Bharti Mobinet;
- approval of (i) the annual Operating Budget and Capital Budget, (ii) each annual Business Plan for the next succeeding fiscal year, and (iii) each five-year Business Plan;
- any increase of, or reduction in, the authorized share capital of Bharti Mobinet or variation of the rights attaching to any equity shares of Bharti Mobinet;
- any reduction of the issued share capital of Bharti Mobinet and the manner thereof;
- the winding up or liquidation of Bharti Mobinet or its sale to, merger into, acquisition of or consolidation or amalgamation with any other company or disposal of subsidiaries;
- the transfer or charge, mortgage, pledge or other encumbrance of the whole or a substantial part of the assets or undertaking of Bharti Mobinet or the acquisition by Bharti Mobinet of the whole or part of the undertaking of any other person or entity, or the share or loan capital of any company, or entry by Bharti Mobinet into any joint venture or partnership, or profit sharing arrangement;
- any change in the nature or scope of the business for the time being of Bharti Mobinet; and
- any other matters the adoption of which requires a special resolution of members under the Companies Act.

*Board of Directors*

- *Composition* : The Board of Directors of Bharti Mobinet shall consist of ten members appointed as follows - five directors shall be nominated by CGL, two directors by Bellsouth, two directors by Millicom and one director shall be nominated by DSS.
- *Quorum* : A quorum shall be constituted only when at least one director nominated by each of CGL, Bellsouth, Millicom, and DSS is present.
- *Adoption of resolutions* : Ordinary Resolutions shall be adopted by the affirmative vote of the majority of directors present with a quorum in attendance, except for the following matters that require the affirmative vote of at least one director nominated by each of CGL, DSS, Bellsouth and Millicom (so long as such shareholder continues to hold in the aggregate at least 10% of the issued and outstanding voting capital of Bharti Mobinet):
  - (a) approval of (i) the annual Operating Budget and Capital Budget, (ii) each annual Business Plan for the next succeeding fiscal year, and (iii) each five-year Business Plan;
  - (b) single capital expenditures in excess of the Rupee equivalent of US$500,000 for the relevant fiscal year;
  - (c) recommendations for appropriations of retained and current earnings submitted to the shareholders for approval;
  - (d) requiring the timely payment of amounts due in respect of any equity shares which have been subscribed hereunder, and the issuance of new equity shares in the share capital of Bharti Mobinet including the admission of new shareholders;
  - (e) designation of Bharti Mobinet's law firm, accounting firm, and statutory auditor;
  - (f) the provision of cellular telecommunications technology and management services to Bharti Mobinet by any person or entity other than BellSouth and Millicom;

(g) the granting of options over all or any portion of the share or loan capital, including debentures, of Bharti Mobinet;

(h) the registering of any share transfer except to the extent that such transfer is to a person or entity other than a shareholder in connection with a public offering;

(i) the issuance of any guarantee or indemnity or the provision of any credit, loan or advance, otherwise than in the normal course of business;

(j) entering into, amending or terminating any contract (i) which may not be performed or terminated within one (1) year, (ii) with a person or entity affiliated in any manner with Bharti Mobinet or any officer, director, shareholder, or employee of Bharti Mobinet or any party to this Agreement, (iii) which may create a contingent liability at a future date, or (iv) otherwise than on commercially reasonable arms' length terms and in the normal and proper course of Bharti Mobinet's business;

(k) entering into, amending or terminating any interconnection agreement with the Department of Telecommunications or any other Government of India agency;

(l) litigation or settlement of any claim or suit exceeding the Indian Rupee equivalent at prevailing exchange rates of US$150,000 in value;

(m) payment of bonuses to officers;

(n) investment or allocation of surplus funds not needed to fund operations of Bharti Mobinet and pending distribution of dividends, if such surplus funds exceed the Rupee equivalent of US$100,000;

(o) approval of any matter relating to the payment of dividends or the allocation of profits to reserves or capitalisation of profits or reserves;

(p) approval of expenditure in excess of the Indian Rupee equivalent at prevailing exchange rates of US$150,000 not previously approved in the annual Operating and Capital Budgets;

(q) transfer of funds to reserve accounts and establishment of depreciation policies;

(r) the creation of any fixed or floating charge, mortgage, pledge or lien, or the establishment of a credit facility or other encumbrance over all or any of Bharti Mobinet's assets;

(s) the taking out of any loan or other bank facility by Bharti Mobinet, including but not limited to the amount and terms of such loan, and the financial institution proposing to extend such loan or facility;

(t) approval of the plan pursuant to which internal audits of Bharti Mobinet shall be conducted;

(u) entry into new geographical markets and/or application for additional telecommunications-related licenses, or amendment or termination of existing license;

(v) appointment of officers and key managers of Bharti Mobinet;

(w) any other matters the adoption of which requires an extraordinary or special resolution of the directors under the Companies Act, as it may be amended from time to time; and

(x) request for guarantee or letter of comfort from shareholders.

**(E) Bharti Aquanet Limited - Joint Venture Agreement**

The principal shareholders of Bharti Aquanet comprising Bharti Telesonic and SingTel i2i have entered into a joint venture agreement dated January 18, 2001, as amended, pursuant to a letter dated April 17, 2001 and September 27, 2001 and a Deed of Ratification and Accession dated September 28, 2001. The principal provisions of agreement, as amended, are as follows:

The joint venture agreement provides for setting up of a joint venture company named Bharti Aquanet for carrying on the business (as defined therein) which is:

(a) to build, operate and maintain cable landing station of the i2i cable network in India;

(b) to provide access of such cable landing stations to other backhaul facility providers;

(c) to designate co-location space to facilitate the provisions of co-location services to cable capacity users;

(d) to offer carrier hotel services at various cities in India; and

(e) to procure and provide backhaul facilities from the cable landing stations to major cities in India at reasonable competitive wholesale rates for the provisions of city to city connectivity.

The parties have agreed to participate in and subscribe to the equity shares of Bharti Aquanet subject to fulfilment of certain conditions precedent relating to obtaining approvals from various regulatory authorities. The conditions precedent include the receipt of all necessary governmental approvals, licenses and waivers necessary or appropriate for operations of the business and receipt of all necessary board, shareholders and/or regulatory approvals for the business of Bharti Aquanet. The parties have agreed to invest in the equity shares of the Bharti Aquanet in the ratio of 49% by SingTel i2i and 51% by Bharti Telesonic.

*Composition of the Board of Directors:* The Board of Directors of the Company shall consist of six directors. SingTel i2i shall be entitled to nominate three directors and Bharti Telesonic shall be entitled to nominate three directors.

The first chairman of the Company shall be nominated by SingTel i2i. Thereafter, the parties shall be entitled to nominate every year one of their directors as Chairman by rotation.

*Quorum:* The quorum of the meeting of the Board of Directors shall be two directors one of whom shall be a director nominated by SingTel i2i and the other director shall be nominated by Bharti Telesonic.

*Adoption of resolutions:* The decisions at the Board meeting will be taken by a majority vote, provided always that no decision will be made unless one director nominated by SingTel i2i and one director nominated by Bharti Telesonic vote in favour of such resolution.

*Transfer of Shares:* A shareholder can transfer the equity shares to any entity in its group subject to the conditions that the transferee agrees to adhere to the shareholders agreement. The agreement provides that a party to the agreement shall give first right of refusal to the other parties in respect of proposed transfer of equity shares.

*Meetings of Shareholders*

*Quorum :* The shareholders by attorney, corporate representative or proxy shall constitute a quorum at a general meeting.

*Resolutions :* All matters raised at a general meeting shall be decided by a unanimous vote of all shareholders present or duly represented.

The agreement also provides for a tag-along right to SingTel i2i in case Bharti Telesonic or any other shareholder proposes to transfer any of its existing equity shares in Bharti Aquanet.

The shareholders have a pre-emptive right in respect of any new issuance of equity shares by Bharti Aquanet.

**Our Strategic Partner, Singapore Telecommunications Limited (SingTel)**

SingTel is the leading provider of international and local telephone services, mobile communication services, data communication services and postal services in Singapore. SingTel is also one of the leading integrated communications service providers in the Asia Pacific region. It has 19 offices in 14 countries around the world, extensive networks throughout the Asia Pacific region and significant investments outside Singapore, particularly in Belgium, India, Philippines, Taiwan and Thailand. SingTel has a strong track record of adding value to its international investments and supporting their growth.

**Financial Performance**

The following financial information is in accordance with Singapore GAAP.

| Particulars | Year ended March 31, 1999 | 2000 | 2001 |
|---|---|---|---|
| | (in millions Singapore Dollars(S$), except per share data) | | |
| Sales and other income | S$4,884 | S$.4,866 | S$4,926 |
| Profit after tax | 1,975 | 1,859 | 2,337 |
| Equity capital | 2,288 | 2,321 | 2,312 |
| Reserves and surplus | 5,680 | 6,249 | 5,754 |
| Earning per share (cents) | 12.5 | 12.0 | 15.1 |
| Net tangible asset per share (cents) | 49.66 | 55.38 | 52.33 |

**Our Financial Partners**

**Warburg Pincus LLC**

Warburg Pincus is a leading global private equity investment firm managing approximately US$11 billion of investment with a further US$5 billion available for investment. Since 1971, Warburg Pincus has raised ten private equity funds and has made over 435 investments across the US, Europe, Asia and Latin America.

Warburg Pincus has substantial focus on India and it has made investments across various economic sectors – telecommunications, financial services, building materials, pharmaceuticals, consumer goods and technology. Warburg Pincus has invested more than US$600 million in India.

**International Finance Corporation, Washington**

IFC is an international organization established in 1956 pursuant to Articles of Agreement, which govern its operations and as of January 1, 2001, it had 174 countries as shareholders.

The principal purpose of IFC is to further economic growth in its developing member countries by promoting private sector development. In partnership with private investors, IFC assists in financing the establishment, improvement and expansion of private sector enterprises by making investments where sufficient private capital is not otherwise available on reasonable terms. In addition to project finance and resource mobilization, IFC offers financial and technical advisory services to private businesses in developing member countries. It also advises member governments on private sector development matters.

**New York Life Insurance Inc., USA**

NYLIF is part of New York Life Insurance Company, and is a fortune 100 company and is one of the largest insurance companies in the USA. It offers traditional life insurance, annuities and long term care insurance. NYLIF, through its affiliate New York Life Investment Management, provides institutional asset management and trust services and various securities products and services.

**Asian Infrastructure Fund**

AIF was established in 1994 with participation from Frank Russel, International Finance Corporation, Asian Development Bank and the Quantum group of funds. AIF is a part of AIF Funds Management Limited (AIFML), which manages close to US $1 billion in direct investments across Asia. AIF has made investments in power and transportation sectors in Asia. AIF has made investments in various telecom projects in Asia including wireless, fixed and wholesale carriers.

**Subsidiaries of Bharti Tele-Ventures**

The following financial information with respect to the subsidiaries of the Company is in accordance with Indian GAAP.

1. **Bharti Cellular Limited**

Date of Incorporation : March 20, 1992

Principal Business : Licencee operator of GSM cellular services for the metro circle of Delhi which includes the towns of Ghaziabad, Faridabad, Noida, Gurgaon.

Has cellular services license in eight additional circles, namely Mumbai, Maharastra, Gujarat, Madhya Pradesh, Tamil Nadu, Kerala, Haryana and Uttar Pradesh (West)

Ownership pattern : Wholly-owned subsidiary of Bharti Tele-Ventures

**Financial performance:**

| Particulars | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Half year ended September 30, 2001 |
|---|---|---|---|---|
| | (in millions, except per share data) | | | |
| Sales* and other income | Rs.1,892 | Rs.2,974 | Rs.3,857 | Rs.2,487 |
| Profit /(Loss) after tax | 50 | 447 | 850 | 569 |
| Equity capital | 1,050 | 1,050 | 1,050 | 1050 |
| Reserves and surplus | (322) | 125 | 975 | 1451 |
| Earning per share | Rs.0.5 | Rs.4.3 | Rs.8.1 | Rs.10.8@ |
| Book value per share | Rs.6.9 | Rs.3.9 | Rs.12.5 | -# |

* *Net of access charges paid to MTNL for interconnection and includes interest income*

*@ Annualised*

*# Book value is negative. Entry fees of new cellular licenses have been accounted for as Miscellaneous expenditure, which can be set off against the shareholders' funds.*

The following companies are the subsidiaries or are proposed to be made subsidiaries of Bharti Cellular:

(i) **Bharti Mobitel Limited**

*Date of Incorporation* : March 27, 1992

*Principal Business* : Licensee operator of GSM cellular services for the metropolitan service area of Kolkata

*Ownership pattern* : Wholly-owned subsidiary of Bharti Cellular

Bharti Cellular acquired 100% equity interest in Bharti Mobitel on September 26, 2001.

**Financial performance:**

| Particulars | Half year ended September 30, 2001 |
|---|---|
| | (in thousands, except per share data) |
| Sales* and other income | 382 |
| Profit /(Loss) after tax | (34) |
| Equity capital | 1,330 |
| Reserves and surplus | (910) |
| Earning per share | - |
| Book value per share | - # |

*# Book value is negative.*

**(ii) Bharti Mobinet Limited**

*Date of Incorporation* : March 3, 1992

*Principal Business* : Licensee operator of GSM cellular services in metropolitan service area of Chennai

*Ownership pattern* : Bharti Cellular : 95.33%

*DSS Mobile Communications* : 4.67%

**Financial performance:**

| **Particulars** | **Year ended March 31,** | | | **Half year ended September 30, 2001** |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | |
| | **(in millions, except per share data)** | | | |
| Sales and other income | Rs.343 | Rs.416 | Rs.625 | Rs.484 |
| Profit after tax | (415) | (224) | (115) | (77) |
| Equity capital | 622 | 622 | 622 | 622 |
| Reserves and surplus | (1,063) | (1,287) | (1,401) | (1,188) |
| Earning per share | - | - | - | - |
| Book value per share | -# | -# | -# | -# |

# Book value is negative

**(iii) Bharti Mobile Limited**

*Date of Incorporation* : March 21, 1995

*Principal Business* : Licencee operator of GSM Cellular services in the circles of Andhra Pradesh and Karnataka. Has entered into a restored license agreement with the DoT to provide cellular services in Punjab.

*Ownership pattern* : SC Cellular : 74%

Telia : 26%

**Financial performance:**

| **Particulars** | **Year ended March 31,** | | | **Half year ended September 30, 2001** |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | |
| | **(in millions, except per share data)** | | | |
| Sales* and other income | Rs.909 | Rs.911 | Rs.2,237 | Rs.1,808 |
| Profit after tax | (1,296) | (254) | (463) | (63) |
| Equity capital | 3,000 | 3,000 | 5,500 | 5,500 |
| Reserves and surplus | (2,888) | (3,142) | (3,606) | (3,387) |
| Earning per share | - | - | - | - |
| Book value per share | -# | -# | -# | -# |

** Net of access charges paid to BSNL for interconnection and includes interest income*

# Book value is negative

Pursuant to Bharti Mobile's application, the DoT, vide letter No. 842-65(A)/97 – VAS dated March 10, 1998 had agreed in principle for the operation of the cellular license in Punjab by Evergrowth, a 100% owned subsidiary of Bharti Mobile. The license fees, related corporate expenses, interest charges, etc. paid towards the Punjab circle and recoverable from Evergrowth until March 1998 was reflected in the Profit and Loss account / Incidental Expenditure during the pre-operative period to the extent these were expensed in the books. For further details, see Financial Statements - Indian Accounting Standards - Bharti Mobile.

In September, 2001, Bharti Mobile received the Punjab license restoration offer from the DoT. As per the license restoration offer, DoT demanded Bharti Mobile pay Rs.4,910 million with respect to all dues (license fees, WPC and liquidated damages) pending the resolution of the dispute relating to the license fee for a period of 693 days when DoT prevented it from offering cellular services. The dispute has been referred to an independent arbitrator, whose award is binding on both Bharti Mobile and the DoT.

Bharti Mobile has given its unconditional consent to the Offer made by the DoT and paid Rs.4,910 million to the DoT on September 21, 2001. Consequently, the DoT restored the Punjab license on September 25, 2001 and on September 27, 2001, the DoT approved the appointment of an arbitrator for adjudication and determination of the dispute. The arbitrator commenced proceedings on October 9, 2001.

Bharti Mobile has informed Essar on September 21, 2001 that the financial arrangement stands terminated as it believes that there have been various defaults committed by Essar under the financial arrangement. In addition, Bharti Mobile based on a legal opinion, believes that Essar has no rights to make claims against Bharti Mobile under the financial arrangement. Also, the restoration order permitted the operation of the license by Bharti Mobile with a stipulation that no request would be raised for implementation of the license through any subsidiaries, including Evergrowth.

bharti

**(iv) SC Cellular Holdings Limited**

*Date of Incorporation* : March 10, 1995

*Principal Business* : Holding Company

*Ownership Pattern* : Wholly-owned subsidiary of Bharti Cellular

**Financial performance:**

| Particulars | Year ended March 31, | | | Halfyear ended September 30, 2001 |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | |
| | (in thousands, except per share data) | | | |
| Sales and other income | Rs.15 | Rs.7 | Rs.4 | - |
| Profit/(Loss) after tax | (35) | (18) | (223) | (511) |
| Equity capital | 4,833 | 4,833 | 111,235 | 111,235 |
| Advance share application money pending allotment . | 9,900 | 894,847 | - | - |
| Reserves and surplus | 571,339 | 571,321 | 670,663 | 670,153 |
| Earning per share | - | - | - | - |
| Book value per share | Rs.1,192 | Rs.1,192 | Rs.70 | Rs.70 |

**(v) Well Done Impex (India) Limited**

*Date of Incorporation* : April 16, 1992

*Principal Business* : Holds real estate

*Ownership pattern* : Wholly owned subsidiary of Bharti Cellular

Well Done Impex (India) Limited is being merged with Bharti Cellular under a court approved amalgamation process in accordance with Indian laws. The confirmation petition of the Delhi High Court has been sanctioned on January 15, 2002.

**Financial performance:**

| Particulars | Year ended March 31, | | | Halfyear ended September 30, 2001 |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | |
| | (in millions, except per share data) | | | |
| Sales and other income | Rs.3 | Rs.83 | Rs.7 | Rs.1.4 |
| Profit /(Loss) after tax | (2) | 2 | (3) | 0.5 |
| Equity capital | 0.16 | 0.16 | 0.16 | 0.16 |
| Reserves and surplus | (5) | (4) | (6) | (6) |
| Earning per share | - | Rs.99.4 | - | Rs.31.7 |
| Book value per share | -# | -# | -# | -# |

# Book value is negative

**2. Bharti Telenet Limited**

*Date of Incorporation* : November 8, 1993

*Principal Business* : Licensee operator to provide GSM cellular services in Himachal Pradesh circle and fixed-line services in Madhya Pradesh and Haryana Telecom circles.

We have applied to the DoT to transfer the Himachal Pradesh cellular license from Bharti Telenet to Bharti Cellular

Has entered into license agreements with the DoT to provide fixed-line services in Delhi, Karnataka and Tamil Nadu circles

*Ownership pattern* : Wholly-owned subsidiary of Bharti Tele-Ventures

**Financial performance:**

| **Particulars** | **Year ended March 31,** | | | **Half year ended September** |
|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **30, 2001** |
| | **(in millions, except per share data)** | | | |
| Sales* and other income | Rs.97 | Rs.471 | Rs.942 | Rs.643 |
| Profit /(Loss) after tax | (301) | (621) | (769) | (216) |
| Equity capital | 1,302 | 1,688 | 3,000 | 3,000 |
| Advance share application money pending allotment . | 398 | 1,043 | - | - |
| Reserves and surplus | (344) | (965) | (1,734) | (1,341) |
| Earning per share | - | - | - | - |
| Book value per share | Rs.7.4 | Rs.2.3 | Rs.3.1 | Rs.1.8 |

** Net of access charges paid to BSNL for interconnection and excludes interest income*

Bharti Telenet has the following subsidiary:

**(i) Bharti Comtel Limited**

*Date of Incorporation* : December 5, 1997

*Principal Business* : Holding real estate and trading in VSAT hardware equipments

*Ownership pattern* : Wholly-owned subsidiary of Bharti Telenet

**Financial performance:**

| **Particulars** | **Half year ended September 30, 2001** (in thousands, except per share data) |
|---|---|
| Sales* and other income | 309 |
| Profit /(Loss) after tax | (5,313) |
| Equity capital | 1,000 |
| Reserves and surplus | (5,313) |
| Earning per share | - |
| Book value per share | - # |

*# Book value is negative.*

3. **Bharti Telesonic Limited**

Date of Incorporation : July 27, 2000

Principal Business : To provide national long distance services.
Has signed the license agreement with DoT to provide national long distance services

Ownership Pattern : Bharti Tele-Ventures : 70%
Bharti Telenet : 30%

Bharti Telesonic had not commenced commercial operations as of September 30, 2001 and hence, no profit and loss account statement were prepared for such period. The amount of funds utilised as on September 30, 2001 was Rs.4,322 million.

Bharti Telesonic has the following subsidiaries:

**(i) Bharti Aquanet Limited**

Date of Incorporation : October 3, 2000

Principal Business : Constructing a landing station at Chennai to provide international bandwidth access

Ownership pattern : The ownership of Bharti Aquanet is in the ratio given below :
Bharti Telesonic : 51%
SingTel i2i : 49%

Bharti Aquanet had not commenced commercial operations as on September 30, 2001 and hence, no profit and loss account was drawn up for that period. The amount of funds utilised as on September 30, 2001 was Rs.63 million.

**(ii) JD Projects Private Limited**

*Date of Incorporation* : October 27, 1995

*Principal Business* : Holds real estate

*Ownership Pattern* : Wholly-owned subsidiary of Bharti Telesonic

**Financial performance:**

JD Projects Private Limited was acquired by Bharti Telesonic in June 2001.

| Particulars | Half year ended September 30, 2001 (in thousands, except per share data) |
|---|---|
| Sales and other income | 2400 |
| Profit/(Loss) after tax | 325 |
| Equity capital | 10,000 |
| Reserves and surplus | 1785 |
| Earning per share | Rs.0.32 |
| Book value per share | Rs.11.72 |

4. **Bharti Broadband Networks Limited**

*Date of Incorporation* : November 23, 2000

*Principal Business* : To provide broadband, VSAT, data centre, high speed internet access services

*Ownership Pattern* : Wholly-owned subsidiary of Bharti Tele-Ventures

**Financial performance:**

| Particulars | Half year ended September 30, 2001 (in thousands, except per share data) |
|---|---|
| Sales and other income | 73 |
| Profit/(Loss) after tax | (24,708) |
| Equity capital | 0.07 |
| Reserves and surplus | (24,708) |
| Earning per share | - |
| Book value per share | -# |

*# Book value is negative.*

5. **Bharti Telespatial Limited**

*Date of Incorporation* : December 23, 1997

*Principal Business* : Promoting projects related to satellite telecommunication and internet services, in India

*Ownership Pattern* : Wholly-owned subsidiary of Bharti Tele-Ventures

**Financial performance:**

| Particulars | Year ended March 31, | | | Half year ended September 30, 2001 |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | |
| | (in millions, except per share data) | | | |
| Sales and other income | - | Rs.217 | Rs.14 | - |
| Profit /(Loss) after tax | - | 0 | 0 | (0.04) |
| Advance share application money | 195 | - | - | |
| Equity capital | - | 10 | 12 | 12 |
| Reserves and surplus | - | 0 | 194 | 194 |
| Earning per share | - | Rs.0.1 | Rs.0.4 | - |
| Book value per share | - | Rs.10.0 | Rs.174.8 | Rs.174.5 |

Bharti Telespatial has the following subsidiaries:

**(i) Bharti BT Limited**

*Date of Incorporation* : March 7, 1995

*Principal Business* : VSAT, Satellite communications equipment and other related services in India and abroad

*Ownership Pattern* : Wholly-owned subsidiary of Bharti Tele-Spatial

**Financial performance:**

| Particulars | Year ended March 31, | | | Halfyear ended September 30, 2001 |
|---|---|---|---|---|
| | 1999 | 2000 | 2001 | |
| | (in millions, except per share data) | | | |
| Sales and other income | Rs.263 | Rs.247 | Rs.432 | Rs.186 |
| Profit /(Loss) after tax | (38) | (34) | 8 | 0.5 |
| Equity capital | 180 | 301 | 301 | 301 |
| Advance share application money pending allotment | 239 | - | - | - |
| Reserves and surplus.. | (142) | (57) | (48) | (48) |
| Earning per share | - | - | Rs.0.3 | Rs0.01 |
| Book value per share | Rs.2.1 | Rs.8.1 | Rs.8.5 | Rs.4.6 |

**(ii) Bharti BT Internet Limited**

*Date of Incorporation* : June 9, 1998

*Principal Business* : Licensee provider of internet services, multi-media services, e-commerce, portal development and other related services in India

*Ownership Pattern* : Wholly-owned subsidiary of Bharti Tele-Spatial

**Financial performance:**

| Particulars | Year ended March 31, | | Halfyear ended September 30, 2001 |
|---|---|---|---|
| | 2000 | 2001 | |
| | (in millions, except per share data) | | |
| Sales and other income | Rs.117 | Rs.174 | Rs.73 |
| Profit /(Loss) after tax | (133) | (423) | (202) |
| Equity capital | 163 | 500 | 500 |
| Advance share application money pending allotment | 25 | - | - |
| Reserves and surplus | 31 | 8 | (195) |
| Earning per share | - | - | - |
| Book value per share | Rs.11.9 | Rs.10.2 | Rs.5.8 |

Bharti Telespatial, Bharti BT and Bharti Broadband Networks are proposed to be merged into Bharti BT Internet (which will be renamed as Bharti Broadband Networks Limited). The Boards of these companies have approved this merger. The scheme of amalgamation has been filed with the High Courts at Bangalore and Delhi, respectively. The Court convened meetings of Bharti BT Internet, Bharti Broadband Networks and Bharti Tele Spatial. The confirmation petition of the Bangalore High Court has been sanctioned on December 12, 2001. The confirmation petition of the Delhi High Court has been sanctioned on January 15, 2002.

# MANAGEMENT

**Board of Directors**

The following table sets forth details regarding our Board of Directors, as of December 31, 2001.

| Name, Designation, Father's Name, Address and Occupation | Other Directorships |
|---|---|
| **Sunil Bharti Mittal** [1]<br>**Chairman and Managing Director**<br>(S/o Late Shri Sat Paul Mittal)<br>A-49, Vasant Marg,<br>Vasant Vihar,<br>New Delhi 110057,<br>India.<br>*Industrialist* | Bharti Cellular Limited, *Managing Director*<br>Bharti Aquanet Limited<br>Bharti BT Internet Limited<br>Bharti BT Limited<br>Bharti Enterprises Private Limited<br>Bharti Healthcare Limited<br>Bharti Mobile Limited<br>Bharti Mobinet Limited<br>Bharti Telecom Limited<br>Bharti Telenet Limited<br>Bharti Telesoft Limited<br>Bharti Teletech Limited<br>Indian Ocean Telecom Limited<br>Bharti Mobitel Limited<br>Bharti Global Limited<br>Telecom (Seychelles) Limited<br>Bharti Infotrac Limited |
| **Rakesh Bharti Mittal** [1]<br>**Director**<br>(S/o Late Shri Sat Paul Mittal)<br>D-189, New Friends Colony,<br>New Delhi,<br>India.<br>*Industrialist* | Bharti Teletech Limited<br>Goa Telecommunications & Systems Limited<br>Bharti Cellular Limited<br>Bharti Enterprises Private Limited<br>Bharti Healthcare Limited<br>Bharti Systel Limited<br>Bharti Telenet Limited<br>Bharti Telesoft Limited<br>Bharti Infotrac Limited<br>Indian Ocean Telecom Limited<br>Bharti Broadband Networks Limited<br>Bharti Global Limited |
| **Rajan Bharti Mittal** [1]<br>**Joint Managing Director**<br>(S/o Late Shri Sat Paul Mittal)<br>E-9/17, Vasant Vihar,<br>New Delhi 110057,<br>India.<br>*Industrialist* | Bharti Telenet Limited, Managing Director<br>Bharti Telecom Limited<br>Bharti Aquanet Limited<br>Bharti BT Internet Limited<br>Bharti Cellular Limited<br>Bharti Enterprises Private Limited<br>Bharti Healthcare Limited<br>Bharti Mobile Limited<br>Bharti Mobinet Limited<br>Bharti Mobitel Limited<br>Bharti Tele-Spatial Limited<br>Bharti Telesoft Limited<br>Bharti Teletech Limited<br>Bharti Infotrac Limited<br>Indian Ocean Telecom Limited<br>Bharti Broadband Networks Limited<br>Bharti BT Limited<br>Bharti Global Limited<br>Telecom (Seychelles) Limited |
| **Akhil Gupta** [1]<br>**Joint Managing Director**<br>(S/o Shri J.P. Gupta)<br>'Utkarsh', 2, Raj Narain Road,<br>Civil Lines,<br>Delhi 110006,<br>India.<br>*Professional* | Bharti Aquanet Limited<br>Bharti BT Internet Limited<br>Bharti BT Limited<br>Bharti Cellular Limited<br>Bharti Enterprises Private Limited<br>Bharti Global Limited<br>Bharti Healthcare Limited<br>Bharti Mobile Limited |

| Name, Designation, Father's Name, Address and Occupation | Other Directorships |
|---|---|
| | Bharti Mobinet Limited<br>Bharti Mobitel Limited<br>Bharti Telecom Limited<br>Bharti Telesoft Limited<br>Bharti Telesonic Limited<br>Bharti Teletech Limited<br>SC Cellular Holdings Limited<br>Bharti i2i Limited<br>Network i2i Limited |
| **Sin Hang Boon** (2)<br>**Director**<br>(S/o Late Mr. Sin Chwee Ngam)<br>41, Kasai Road<br>Singapore – 808288<br>*Professional* | Singapore Telecom International Europe Limited<br>ADSB Telecommunications BV<br>Belgacom S.A.<br>Singapore Telecom ADSB (Netherlands Antilles) NV<br>SingTel ADSB (Netherlands) BV<br>InfoCom Holding Company Pte Limited<br>Bharti Telecom Limited<br>SingTel Australia Investment Limited |
| **Lim Toon** (2)<br>**Director**<br>(S/o Mr. Lim Hui Pek)<br>1B, Pine Grove # 12-06,<br>Singapore – 591001.<br>*Professional* | APT Satellite Co. Limited<br>APT Satellite Holdings Limited<br>APT Satellite International Co. Limited<br>APT Satellite Investment Co. Limited<br>APT Satellite Telecommunications Limited<br>ASEAN Telecom Holdings Sdn. Bhd.<br>Bharti Telecom Limited<br>C2C AsiaPac Pte. Limited<br>C2C Pte. Limited<br>C2C Cable Korea Limited<br>C2C Infocom Cable (Taiwan) Limited<br>ICO Investment (Singapore) Pte. Limited<br>Info Ad Publishing Consultants Pte. Limited<br>INS Holdings Pte. Limited<br>Integrated Databases India Limited<br>Integrated Information (Hong Kong) Limited<br>Integrated Information (M) Sdn. Bhd.<br>Integrated Media Services (Taiwan) Co. Limited<br>Pastel Limited<br>SingTel (Phillipines), Inc.<br>SingTel Aeradio Pte. Limited<br>SingTel Australia Holding Pte. Limited<br>SingTel EInvestments Pte. Limited<br>SingTel Japan Co. Limited<br>SingTel Services Australia Pty. Limited<br>SingTel Yellow Pages Pte. Limited<br>SingTelSat Pte. Limited<br>Singapore Telecom Australia Pty. Limited<br>Singapore Telecom Hong Kong Limited<br>Singapore Telecom India Private Limited<br>Singapore Telecom Japan Co. Limited<br>Singapore Telecom Korea Limited<br>Singapore Telecom Taiwan Limited<br>Singapore Telecom USA Inc.<br>ST Paging Pte. Limited<br>STI (Australia) Holding Pte. Limited<br>Tourism Publications Corporation Sdn. Bhd.<br>Viva Bahagia Sdn. Bhd. |
| **Ms. Chua Sock Koong** (2)<br>**Director**<br>(D/o Late Mr.Chua Ngian Sam)<br>106, Coronation Road West, Singapore - 269334<br>*Professional* | Singapore Telecom International Pte. Limited<br>Singapore Telecom America, Inc.<br>SingaSat Pte. Limited<br>SingTel Investments Pte. Limited<br>SingTel (Jersey) Private Limited |

| Name, Designation, Father's Name, Address and Occupation | Other Directorships |
|---|---|
| | ADSB Telecommunications BV<br>Singapore Telecom ADSB (Netherlands Antilles) NV<br>SingTel ADSB (Netherlands) BV<br>C2C AsiaPac Pte. Limited<br>SingTel Global Services Pte. Limited<br>SingTel USA, Inc.<br>Singapore Telecom Europe Limited<br>Telecom Equipment Pte. Limited<br>SingTel Yellow Pages Pte. Limited<br>SingTel EInvestments Pte. Limited<br>STEL Information Technology (Shanghai) Co.Limited<br>KA Land Pte. Limited<br>SingTelSat Pte. Limited<br>SingTel Asian Investments Pte. Limited<br>Singapore Telecom Mobile Pte. Limited<br>Singapore Telecom Paging Pte. Limited<br>SingTel Ventures (Cayman) Pte. Limited<br>Belgacom S.A.<br>SingTel Ventures (Singapore) Pte. Limited<br>SingNet Pte. Limited<br>ICO Investment (Singapore) Pte. Limited<br>National Computer Systems Pte. Limited<br>SingTel Strategic Investments Pte. Limited<br>InfoCom Holding Company Pte. Limited<br>Sesami.com Pte. Limited<br>C2C Pte. Limited<br>Shin Corporation Public Company Limited<br>Singapore Telecom Australia Investments Pty. Limited<br>Pastel Limited<br>Fonds De Pension<br>Fonds De Pension Complementaire |
| **Dalip Pathak** (3)<br>**Director**<br>(S/o Shri. J.S. Pathak)<br>UOB Plaza I, # 10-02,<br>80 Raffles Place,<br>Singapore.<br>*Professional* | Affinity Investments Limited<br>Alpine International Limited<br>Ashford International Limited<br>Beacon Holdings Limited<br>Bloom Investments Limited<br>Brentwood Investment Holding Limited<br>Camino Holdings Limited<br>Communications One Limited<br>Crusade Holding Limited<br>Ealing Investments Limited<br>Eastglade International Limited<br>Ellsberry Holdings Limited<br>Elm International Limited<br>Ensley Limited<br>Express Ventures India Limited<br>Garatt Holdings Limited<br>Gentle International Limited<br>Madison Holding Limited<br>Media Ventures India Limited<br>Merlion Investments Limited<br>Misty Oaks Investments Limited<br>Nabuco Holdings Limited<br>Nicholas Piramal Industries Limited<br>Parkville Holdings Limited<br>Qualitas Healthcare Mauritius Limited<br>Queenswood Investments Limited<br>Randall Investments Limited<br>Tempo Investments Limited<br>Ventures Infotech Limited<br>Westcombe Investments Limited |

| Name, Designation, Father's Name, Address and Occupation | Other Directorships |
|---|---|
| **Pulak Chandan Prasad** [3]<br>**Director**<br>(S/o Shri. Raj Upendra Prasad)<br>UOB Plaza I, # 17-01,<br>80 Raffles Place<br>Singapore- 048624<br>*Professional* | IMO Communications<br>Homlinkors e-services<br>Cashtech<br>Venture Infotech Limited<br>Apar Holdings Corp.<br>Verette<br>Foodberc |
| **Ravi Akhoury**<br>**Director**<br>(S/o Shri. J. Akhoury)<br>6, Pine Valley Way<br>Florham Park, NJ<br>USA<br>*Professional* | Innerdoorway.com<br>MacKay Shields |
| **Bashir Abdulla Currimjee**<br>**Director**<br>(S/o.Abdulla Currimjee)<br>14, Forest Lane, Floreal<br>Mauritius<br>*Industrialist* | AMC Limited<br>Bharti i2i Limited<br>Bonaire Leasing Co.Limited<br>Bonaire Overseas Limited<br>Bookworld Limited<br>Ceejay Telenet Limited (formerly known as Comrex Limited)<br>Central Distributors Co.Limited<br>Central Distributors Gas Limited<br>Cheribinny Limited<br>CI Investment Limited<br>Compagne Immobiliere Limited<br>Continental Holdings Limited<br>Creative Advertising Bureau Limited<br>Currimjee Direct Sales Limited<br>Currimjee Jeewanjee & Co.Limited<br>Currimjee Jeewanjee Properties Limited<br>Currimjee Limited<br>Detergents Limited<br>Direct Sales Management Services Limited<br>ELF Gaz (Maurice) Limited<br>Emtel Limited<br>Emvision Limited<br>Fakhary Limited<br>Fincorp Limited<br>Habitat Development Limited<br>Island Financial Ser.Limited<br>Island General Insurance Co.Limited<br>Island Leasing Co.Limited<br>Island Life Assurance Co.Limited<br>Le Tricot LTEE<br>Margarine Inds.Limited<br>Mauritius Commercial Fertilizers Industry Limited<br>Mauritius Properties Co.Limited<br>MC Vision Limited<br>Multi Channel Retail Limited<br>Multiplant Management Co.Limited<br>Nakufreight (Mauritius) Limited<br>Narisa Limited<br>Newbook Limited<br>Newmark Limited<br>Newpack Limited<br>Network i2i Limited<br>Quality Beverages Limited<br>Safety Gloves Limited<br>SAIL Distributors Limited |

| Name, Designation, Father's Name, Address and Occupation | Other Directorships |
|---|---|
| | SAIL International Limited<br>Sarim Surgical Limited<br>Silver Wings Travels Limited<br>Soap & Allied Inds Limited<br>State Bank of Mauritius Limited<br>Toy World Limited<br>Tropical Parical Paradise Co.Limited<br>Unicom Limited<br>Unigly Limited<br>Vital Water Bottling Co.Limited |
| **Donald Cameron**<br>**Director**<br>(S/o.Mr.Hugh Cameron)<br>17, Hillgate Street<br>London, W8 7SP, U.K.<br>*Professional* | SFR, Paris, France |
| **P.M.Sinha**<br>**Director**<br>(S/o.Mr.K.P.Sinha)<br>B-787, Sushant Lok-I<br>Gurgaon - 122002,<br>Haryana.<br>*Professional* | PepsiCo India Holdings Pvt. Limited<br>Lafarge India<br>Wipro Technologies<br>Azim Premji Foundation |
| **N Kumar**<br>**Director**<br>(S/o.Mr.K.S.Narayanan)<br>No.1, George Avenue<br>Chennai – 600018<br>*Professional* | Indchem Software Technologies Limited<br>SilkRoute Indchem Limited<br>AMP Sanmar Assurance Company Limited<br>The India Cements Limited<br>Spencer & Co Limited<br>Chemplast Sanmar Limited<br>Sanmar Shipping Limited<br>Sanmar Speciality Chemicals Limited<br>Sanmar Properties and Investments Limited<br>Dragoco India Limited<br>Narayanan Kumar Holdings Private Limited<br>N Kumar Investments Limited<br>Apex NK Software Solutions Limited<br>Indchem Software Technologies (India) Limited<br>E-Gurkha Private Limited<br>autopartsasia Private Limited<br>Indchem Software Technologies Pte Limited<br>E Gurkha Pte Limited<br>Bhavani Kumar Holdings Private Limited<br>Bhavani Kumar Investments Private Limited<br>BK Consolidations Private Limited<br>Madhura Kumar Holdings Private Limited<br>Madhura Kumar Investments Private Limited<br>Madhura Consolidations Private Limited<br>Madhura Kumar Properties Private Limited<br>Mayura Kumar Holdings Private Limited<br>Mayura Kumar Investments Private Limited<br>Mayura Consolidations Private Limited<br>Hillcrest Investments (Beta) Private Limited<br>Madhuram Narayanan Centre for Exceptional Children<br>Music Academy<br>Indchem Research & Development Laboratory |
| **Wong Hung Khim**<br>(S/o.Mr.Wong Twee York)<br>107, Namly Drive<br>Singapore – 267501<br>*Professional* | DelGro Corporation Limited<br>SBS Transit Limited (formerly known as Singapore Bus Services Limited)<br>Stamford Land Corporation Limited (formerly known as Hai Sun Hup Group Limited)<br>Overseas Union Enterprise Limited<br>L C Development Limited |

| Name, Designation, Father's Name, Address and Occupation | Other Directorships |
|---|---|
| | DelGro Investments Pte Limited<br>SBS International Holdings Pte Limited<br>Waterbank Properties (S) Pte Limited (formerly known as Singbus Land Pte Limited)<br>Waterdale Development Pte Limited<br>Marylebone Investment Pte Limited<br>Eukay Investment Pte Limited<br>CityCab Pte Limited<br>SBS(Guangzhou) Pte Limited<br>Marylebone Two Pte Limited<br>Computer Cab plc<br>Monteria Pte Limited<br>Waterspring Investment Pte Limited<br>Waterphil Development Corporation<br>CityFleet (UK) Pte Limited<br>Boon Lay Executive Condominiums Pte Limited<br>Point West London Limited<br>Singapore Leisure Industries Pte Limited<br>RCC Holding Pte Limited<br>Jurong Country Club Limited<br>APT Satellite International Company Limited, British Virgin Islands<br>APT Satellite Holdings Limited, Bermuda<br>Metroline plc, United Kingdom<br>Braddell plc, United Kingdom<br>APT Satellite Investment Company Limited, British Virgin Islands<br>APT Satellite Company Limited, HK<br>Tanah Merah Country Club |

(1) Nominated by Bharti Telecom Limited
(2) Nominated by SingTel
(3) Nominated by Brentwood

*Sunil Bharti Mittal*, age 44 years, is the Chairman and Managing Director of Bharti Tele-Ventures. He is a graduate of Punjab University and has completed the "Owner/President Management Programme" from Harvard Business School in 1999. He started his career in 1976 by setting up an unit to manufacture bicycle components. In 1986, he partnered with Siemens to produce telephone equipments. When the telecommunications sector was opened for private sector participation, Mr. Mittal took advantage of the opportunity and acquired two cellular licenses and one fixed-line license. Bharti Cellular was the first private operator to launch cellular services in Delhi and Bharti Telenet was the first private operator to launch fixed line telecommunications services in Madhya Pradesh. He is the founder, past president and chairman of various telecom industry associations such as Cellular Operators Association of India, Association of Basic Telecom Operators, Telecom Equipment Manufacturers Association of India from 1990 to 1996 and Federation of Indian Chambers of Commerce and Industry (FICCI), Telecom Committee. He is a member of the Steering Committee and Executive Committee of FICCI. He is the Co-Chairman of the Indo-US Joint Business Council. He is the Honorary Consul of the Republic of Seychelles in India. He was awarded *Telecom Man of the Year* award by *Communication World* in 1997 and *IT Ratna* of the millennium by Wisitex Foundation in 2000. He has recently been chosen as one of the "Star of Asia" by *Business Week* for the year 2001. In January 2001, Mr. Mittal was selected as one of the top global entrepreneurs of the year 2000 by *Business Week*.

*Rakesh Bharti Mittal*, age 46 years, is a Director of Bharti Tele-Ventures. Mr. Mittal is an electronics engineer from YMCA Institute of Engineering, having over 25 years of industry experience. He is a member of the National Council of the Confederation of Indian Industry (CII) since 1999. Presently he heads the National Committee on Customer Affairs of CII and has also been a member of the Northern Region Council of CII since 1998. He is a member of the IT Vision Group of the State of Punjab headed by the Chief Minister of Punjab, which was established to formulate information technology strategy for the Government of Punjab. He is also actively involved in various charitable organisations.

*Rajan Bharti Mittal*, age 41 years, is the Joint Managing Director of Bharti Tele-Ventures. He is a graduate of Punjab University and has over 20 years of industry experience. He has experience in the area of marketing and is actively involved in overseeing the activities of Bharti Tele-Ventures and its subsidiaries at the corporate level. He is a member of the Managing Committee of the Punjab, Haryana and Delhi Chambers of Commerce and Industry (PHDCCI). He is the chairman of FICCI Telecom Committee as well as the PHDCCI Telecom Committee. He was the President of ABTO during the period 1999-2000.

*Akhil Gupta*, age 45 years, is the Joint Managing Director of Bharti Tele-Ventures. Mr.Gupta is a commerce graduate and Chartered Accountant by qualification and has over 20 years of professional experience. He has been closely associated with organisational and financial restructuring of Bharti group of companies, its entry and growth in the telecommunication services sector and formation of joint ventures with STET, Siemens, British Telecom, Warburg Pincus and Singapore Telecom. Mr. Gupta was adjudged as the Chief Financial Officer for the year 2001 for "Mergers and Acquisitions" by the Economic Intelligence Unit, India in association with American Express.

*Sin Hang Boon*, age 63 years, is a Director of Bharti Tele-Ventures. Mr. Sin is a nominee of SingTel. He has a bachelor of science degree in Physics from Nanyang University and a post-graduate diploma in business administration from the University of Singapore. He has also attended the Advanced Management Programme at Harvard.. He is presently Chief Executive Officer of STI and has been a member of the top management team for 14 years. He joined SingTel in 1960 and has held numerous positions in different areas and was also seconded to Belgacom of Belgium, in which SingTel has an equity stake.

*Lim Toon,* age 57 years, is a Director of Bharti Tele-Ventures. Mr. Lim is a nominee of SingTel. He is an engineer from the University of Canterbury, New Zealand and has a postgraduate diploma in business administration from the University of Singapore. He has over 30 years of experience with SingTel in various units and assignments of the business including planning, implementation and operation of telecommunication services. Since April 1999, he has been the Chief Operating Officer of SingTel.

*Chua Sock Koong*, age 43 years, is a Director of Bharti Tele-Ventures. Ms. Chua is a nominee of SingTel. Ms. Chua graduated with first class honours in accountancy from the University of Singapore in 1979 and is a Certified Accountant and a Chartered Financial Analyst. She was appointed Chief Financial Officer of SingTel in April 1999. Ms Chua joined SingTel in June 1989 as Treasurer, with responsibility for its treasury functions, tax, insurance and risk management and over the past years has overseen various departments such as corporate development, company secretarial, legal, international affairs and regulatory functions of the SingTel Group. Upon her promotion to Senior Vice President (Corporate Affairs & Finance) in July 1995, she took on the added responsibility of all financial matters in the SingTel Group. Ms. Chua is responsible for the overseas investments of SingTel.

*Dalip Pathak*, age 50 years, is a Director of Bharti Tele-Ventures. Mr. Pathak is a nominee of Warburg Pincus. He is an arts graduate from the University of Delhi and holds a Masters degree in Business Administration from the Wharton School, University of Pennsylvania. He has been with Warburg Pincus since 1994 and is presently a Managing Director heading the Singapore operations, covering the South Asia and South-East Asian region. Prior to joining Warburg Pincus, Mr. Pathak has worked with International Finance Corporation (World Bank Group), Bain & Co. and Chemical Bank.

*Pulak Chandan Prasad*, age 33 years, is a Director of Bharti Tele-Ventures. Mr. Prasad is a nominee of Warburg Pincus. He is an engineer from the Indian Institute of Technology, Delhi and holds a post graduate diploma in Business Administration from the Indian Institute of Management, Ahmedabad. He is presently a Managing Director at Warburg Pincus and he is responsible for the technology and telecommunciations related investments in South East Asia, Australia and India. Prior to joining Warburg Pincus, Mr.Prasad was a management consultant with McKinsey & Company in India and South Africa.

*Ravi Akhoury*, age 54 years, is a Director of Bharti Tele-Ventures. Mr. Akhoury is an engineer from Indian Institute of Technology and has a Masters qualification in Quantitative Methods from State University of New York at Stony Brook, USA. He has over 26 years of experience in the investment management business and is presently the Chairman and Chief Executive Officer of Mackay Shields, an investment management firm. He is also a member of the Executive Management Committee of New York Life Insurance Company and a member of the Financial Affairs Committee of the New York Academy of Sciences. Prior to Mackay Shields, Mr. Akhoury worked with Fischer, Francis, Trees and Watts and Equitable Life.

*Bashir Abdulla Currimjee*, age 58 years, is a Director of Bharti Tele-Ventures. Mr.Currimjee is a graduate of Tufts University, USA. He was a Director of the Central Bank of Mauritius (Reserve Bank) for 15 years from 1978 to 1993. He is the former Chairman of the Mauritius Chamber of Commerce and Industry, Association of Mauritian Manufacturers and also the Joint Economic Council (i.e. the apex body of the private sector institutions in Mauritius). He has been awarded the Grand Order of the Star and Key (GOSK) by the Government of Mauritius, the highest civil distinction in Mauritius. He is the Honorary Consul in Mauritius for the Republic of Turkey since 1984. He owns the Currimjee group which is the largest commercial business group in Mauritius. It was established in 1890 and has operations in Mauritius, South Africa, Middle East, India and Seychelles. It is a diversified group, with activities in manufacturing, trading, telecommunications, energy, financial services and travel.

*Donald Cameron*, age 55 years, is a Director of Bharti Tele-Ventures. Mr. Cameron is a chemical engineer from Loughborough University and has a Masters qualification in Economics and Administration in the petroleum Industry from Loughborough University. He has over 32 years of experience in the petroleum industry and telecommunication industry. He started his career in petroleum industry and worked with British Petroleum and Burmah Oil. He joined British Telecom in 1989 in its International Mobile Division and since then he has been involved with British Telecom's mobile business interests in the USA, Europe and Asia. He has represented British Telecom as a Board member in Spanish, Indian and French mobile joint ventures. He served British Telecom as Director (New Ventures) when its mainstream wireless division was established in 1997 to accelerate international mobile growth as the principal new business area of British Telecom. He was associated with various overseas joint ventures of British Telecom in mobile business and was Head of mobile for Asia Pacific in 1998. Presently, Mr. Cameron offers consultancy services to British Telecom, which he commenced in January 2001.

*P M Sinha*, age 61 years, is a Director of Bharti Tele-Ventures. He is alumnus of Massachusetts Institute of Technology's Sloan School of Management. Mr.Sinha is President of Pepsi-Cola Company South Asia Business Unit. He is also the Chairman of PepsiCo India Holdings Limited and President of Pepsi Foods Limited. He is also on the board of Lafarge India and has joined the Board of Wipro, Azim Premji Foundation, ICICI bank and Electrolux. Prior to joining Pepsico in 1992, Mr.Sinha was on the Executive Board of Directors of Hindustan Lever from October, 1981. He was also Chairman of Stephan Chemicals between 1990 to 1993 and on the boards of Brooke Bond India Limited, Lipton India Limited, Indexport Limited and Lever Nepal Limited.

*N Kumar*, age 52 years, is a Director of Bharti Tele-Ventures. He has a bachelor of engineering degree in electronics and communications. He is the Vice Chairman of the Sanmar group which operates in diverse areas such as chemicals, thermoplastic resins, cement, shipping, electronics, footwear etc. An active spokesman of industry and trade, Mr.N.Kumar was the President of Confederation of Indian Industry (CII) and participated in various other apex bodies.

*Wong Hung Khim*, age 63 years, is a Director of Bharti Tele-Ventures. He is also the Group Chairman and Chief Executive Officer of the DelGro group of companies in Singapore. Mr.Wong was the head of the Port of Singapore Authority between 1979 and 1987. He was instrumental in restructuring and corporatisation of Telecom Authority of Singapore and its listing on the stock exchange of Singapore. He was appointed as the first President and Chief Executive Officer of SingTel. He was also Deputy Chairman of SingTel. In recognition of his achievements in public service, Mr.Wong was awarded the meritorious service medal by SingTel in 1992.

Mr.Sunil Bharti Mittal, Mr.Rakesh Bharti Mittal and Mr.Rajan Bharti Mittal are brothers.

**Compensation of Managing Directors / Wholetime Directors**

The Board of Directors of the Company at its meeting held on September 21, 2001, and the members of Bharti Tele-Ventures, at the annual general meeting held on September 25, 2001, appointed Mr. Sunil Bharti Mittal as the Chairman and Managing Director and Mr. Rajan Bharti Mittal and Mr. Akhil Gupta as the Joint Managing Directors, for a period of five years effective October 1, 2001. The remuneration package approved by the Board and shareholders and as accepted by Mr. Sunil Bharti Mittal, Mr. Rajan Bharti Mittal and Mr. Akhil Gupta is described below:

Mr. Sunil Bharti Mittal, as Chairman and Managing Director of Bharti Tele-Ventures, is entitled to a monthly remuneration of Rs.0.2 million with effect from October 1, 2001. As Managing Director of Bharti Cellular, he is entitled to remuneration of Rs.2.275 million per month and an annual performance linked incentive of upto Rs.19 million for the year ending March 31, 2002. The actual amount of the performance linked incentive will be decided by the Board of Directors based on the performance. However, the total remuneration drawn from one or both the companies would not exceed the maximum limit admissible under law as applicable from time to time in any company in which he is the Managing Director.

Mr. Mittal is also eligible for additional benefits, including contributions to provident fund, superannuation fund or annuity fund, gratuity, car with chauffeur, telephone at residence for official purposes and reimbursement for entertainment and any other expenses incurred in the course of his duties. This remuneration package is effective from October 1, 2001 to March 31, 2002 after which it will be reviewed and revised.

Mr.Rajan Bharti Mittal, as Joint Managing Director of Bharti Tele-Ventures, is entitled to a monthly remuneration of Rs.0.2 million for the period October 1, 2001 to March 31, 2002.

He is entitled for additional benefits, including contributions to provident fund, superannuation fund or annuity fund, gratuity payable as per the rules of Bharti Tele-Ventures, car with chauffeur, telephone at residence for official purposes and reimbursement for entertainment and any other expenses incurred in the course of his duties. The above remuneration would be reviewed thereafter by the Board of Directors from time to time.

Mr. Rajan Bharti Mittal is the Managing Director of Bharti Telenet. Effective October 1, 2001, he is not entitled to receive any compensation from Bharti Telenet in his capacity as Managing Director. Mr. Rajan Bharti Mittal has been appointed as advisor to Bharti Telesonic for a period of five years with effect from October 1, 2001. For the period October 1, 2001 to March 31, 2002, in his capacity as advisor, he is entitled to a fee of Rs.0.975 million per month and an annual performance linked incentive of upto Rs.6 million. The actual amount of the performance linked incentive will be decided by the Chairman of Bharti Tele-Ventures, based on his performance. The fee for the remaining period of his tenure as advisor will be decided by the Board of Directors from time to time.

Mr.Akhil Gupta, as Joint Managing Director of Bharti Tele-Ventures, is entitled to a monthly remuneration of Rs.0.2 million for the period October 1, 2001 to March 31, 2002.

He is entitled for additional benefits, including contributions to provident fund, superannuation fund or annuity fund, gratuity payable as per the rules of the Company, car with chauffeur, telephone at residence for official purposes and reimbursement for entertainment and any other expenses incurred in the course of his duties. The above remuneration would be reviewed thereafter by the Board of Directors from time to time.

Mr.Akhil Gupta has been appointed as advisor to Bharti Telenet for a period of five years with effect from October 1, 2001. For the period October 1, 2001 to March 31, 2002, in his capacity as advisor, he is entitled to a fee of Rs.0.715 million per month and an annual performance linked incentive of upto Rs.7.5 million. The actual amount of the performance linked incentive will be decided by the Chairman of Bharti Tele-Ventures, based on his performance. The fee for the remaining period of his tenure as advisor will be decided by the Board of Directors from time to time.

**Corporate Governance**

We confirm that we have complied with Guidelines issued by SEBI in respect of corporate governance specially with respect to broad basing of the Board and constituting the various committees required under such guidelines. We have constituted an audit committee of seven directors comprised of a majority of independent directors The scope of the audit committee's duties include the following:

1. Reviewing the Company's financial reporting process and systems;
2. Recommending the appointment and removal of external auditors (statutory and internal), fixation of audit fee and also approval for payment for any other related services;
3. Reviewing with management the annual financial statements before submission to the Board, focusing primarily on :
   - i. Any changes in accounting policies and practices;
   - ii. Major accounting entries based on exercise of judgment by management;
   - iii. Qualifications in draft audit report;
   - iv. Significant adjustments arising from the audit;
   - v. Compliance with accounting standards;
   - vi. Compliance with stock exchange and legal requirements concerning financial statements;
   - vii. Any related party transactions, that is transactions of the Company of material nature, with promoters or the management, their subsidiaries or relatives that may have potential conflict with the interests of Company at large.
4. Discussing and finalizing with the internal auditors the nature and scope of the internal audit and reviewing with the management, external and internal auditors, the adequacy of internal control systems, the internal audit reports and follow up actions thereon.
5. Discussing and finalizing with external auditors before the audit commences nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
6. Reviewing the Company's financial and risk management policies.
7. All other matters which may be necessary and which fall within the scope of Audit Committee from time to time.

We have also constituted a compensation committee of seven directors comprised of a majority of independent directors. The scope of the Compensation Committee's duties include, among others, the formulation of terms and conditions for the following:

1. the quantum of options to be granted under an ESOP per employee and in aggregate;
2. the conditions under which options vested in employees may lapse in case of termination of employment for misconduct;
3. the exercise period within which the employee should exercise the option and that option would lapse upon failure to exercise the option within the exercise period;
4. the specified time period within which the employee shall exercise the vested options in the event of termination or resignation of an employee;
5. the right of an employee to exercise all the options vested in him at one time or at various points of time within the exercise period;

6. the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of rights issues, bonus issues and other corporate actions;
7. the grant, vest and exercise of option in case of employees who are on long leave; and
8. the procedure for cashless exercise of options.

We have also constituted an investor grievance committee comprising of three directors to specifically look into the redressal of shareholders and investor complaints.

We have constituted a Business Review and Investment Committee as required by our shareholders agreement. For further details on the powers of the Business Review and Investment Committee, see "Our History and Corporate Structure".

**Shareholding of Directors**

Mr. Sunil Bharti Mittal holds 2,750,000 equity shares of Bharti Tele-Ventures. Mr. Akhil Gupta holds options issued by the Bharti Tele-Ventures Employees' Welfare Trust for an amount of Rs.23.39 million and to purchase 80,000 equity shares at face value of Rs.10 each (these shares are entitled to any bonuses, including 800,000 equity shares under the recent one for ten bonus issue).

**Interest of the Directors**

All Directors of Bharti Tele-Ventures may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the Board or a Committee thereof as well as to the extent of other remuneration, reimbursement of expenses payable to them under our Articles of Association. The wholetime directors are interested to the extent of remuneration paid to them for services rendered by them as officers or employees of the Company. All our directors may also be deemed to be interested to the extent of equity shares, if any, already held by them or their relatives in Bharti Tele-Ventures, or that may be subscribed for and allotted to them, out of the present Offering in terms of the Draft Offer Document and also to the extent of any dividend payable to them and other distributions in respect of the said equity shares.

Our directors may also be regarded as interested in the equity shares, if any, held by or that may be subscribed by and allotted to the companies, firms and trust, in which they are interested as directors, members, partners or trustees.

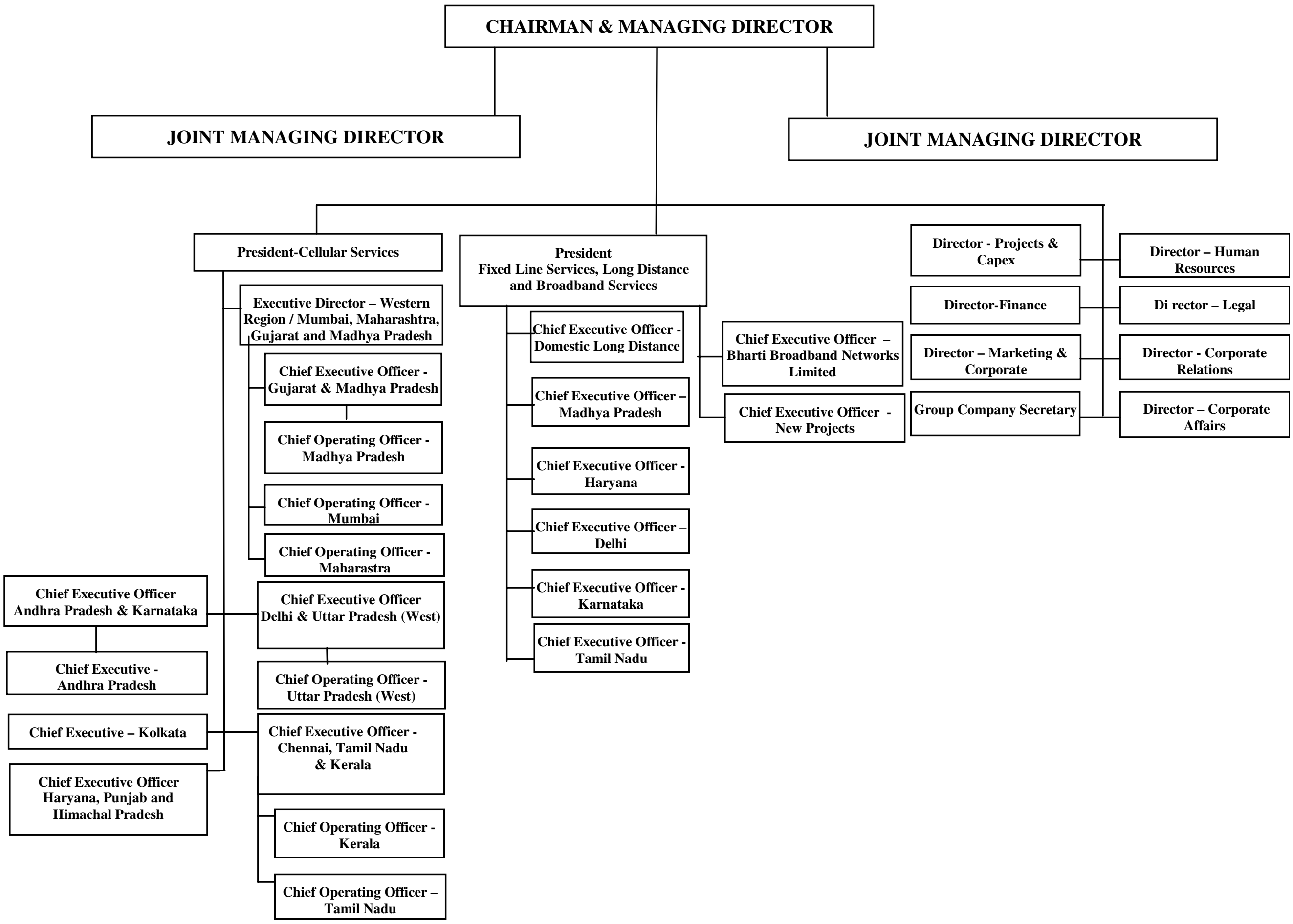
We have not entered into any contracts in the last two years from the date of this Draft Offer Document, in which our directors are interested, directly or indirectly, and no payments have been made to them in respect of these contracts, or is proposed to be made to them other than as mentioned in the "IAS Consolidated Financial Statements – Related Party Transactions" and notes mentioned under "Indian Accounting Policies Unconsolidated Financial Statements".

**Change in Board of Directors in Last Three Years**

| Name | Date of appointment | Date of Cessation | Reason |
|---|---|---|---|
| Sin Hang Boon | December 7, 2001 | - | Appointed |
| Pulak Chandan Prasad | November 22, 2001 | - | Appointed |
| Wong Hung Khim | November 16, 2001 | - | Appointed |
| P.M.Sinha | November 16, 2001 | - | Appointed |
| N.Kumar | November 16, 2001 | - | Appointed |
| Donald Cameron | September 21, 2001 | - | Appointed |
| Chua Sock Koong | May 7, 2001 | - | Appointed |
| Bashir A Currimjee | February 27, 2001 | - | Appointed |
| Lim Toon | November 7, 2000 | - | Appointed |
| Lung Chien Ping | November 7, 2000 | December 4, 2001 | Resignation |
| Ravi Akhoury | October 16, 2000 | - | Appointed |
| Roberto Giardi | November 12, 1999 | September 25, 2000 | Resignation |
| Dalip Pathak | September 22, 1999 | - | Appointed |
| Richard Paul Slogrove | June 11, 1999 | July 10, 2001 | Resignation |
| K.L. Jain | April 3, 1996 | March 25, 2001 | Resignation |
| Antonino Aloia | April 3, 1996 | September 25, 2000 | Resignation |
| Massimo Sarmi | April 3, 1996 | November 12, 1999 | Resignation |

**OUR MANAGEMENT ORGANIZATION STRUCTURE**

Key Managerial Personnel of Bharti Tele-Ventures




Our key managerial personnel, other than the Chairman and Managing Director and the two Joint Managing Directors, are as follows:

Anil Nayar, age 51 years, is the President — Cellular Services. He is an engineer and holds a post graduate diploma in Management from the Indian Institute of Management, Bangalore and has over 27 years of industry experience. He has been with us for more than 5 years and was previously responsible for the cellular operations in Delhi. Prior to joining us in April 1996, Mr. Nayar had worked with Indian Iron & Steel Co., Machinery Manufacturers Corporation, Avery India and Indchem Electronics.

Badri Agarwal, age 52 years, is the President — Access, Long Distance and Broadband Services. Mr. Agarwal is a commerce graduate and Chartered Accountant. He joined us in September 1999 as a Corporate Director with Bharti Enterprises and has over 30 years of experience in the industry. Prior to joining us, Mr. Agarwal was Managing Director of Eicher Good Earth Limited, a part of the Eicher group.

Viresh Dayal, age 46 years, is the Director — Projects and Capex. Mr. Dayal is an engineer from Indian Institute of Technology, Delhi and holds a postgraduate diploma in Management from the Indian Institute of Management, Ahmedabad. Mr. Dayal joined us in 1985 and has assumed various responsibilities within the Bharti group ofcompanies. He has telecommunication industry experience in areas such as consumer telecommunications products and telecommunication services. He has over 21 years experience of the industry. Prior to joining us, Mr.Dayal worked with Blue Star, International Data Management and DLF Universal.

K.L.Jain, age 52 years, is the Director-Corporate Affairs. Mr. Jain is a science graduate and holds a postgraduate diploma in Management from the Birla Institute of Technology & Science, Pilani. He has over 29 years of experience and prior to joining us in September 1995, Mr. Jain worked with Bindal Agrochem.

Hemant Sachdev, age 39 years, is the Director — Marketing & Corporate Communications. Mr. Sachdev is a commerce graduate from University of Delhi. He joined Bharti Cellular as General Manager — Marketing in 1995 where he led the marketing department which launched AirTel cellular services. He provides strategic direction and business support to the operating companies across businesses. He has an experience of 14 years in marketing, brand management and advertising. He currently works on all our emerging telecommunications services projects. Prior to joining us, Mr. Sachdev worked with FCB-Ulka and Mccann-Ericsson.

Jagdeep Khandpur, age 42 years, is the Director-Human Resources. Mr. Khandpur has a postgraduate degree in Human Resources (MPMIR) from University of Business Studies (UBS), Chandigarh. He has over 21 years of human resources experience in various Indian and multinational companies such as Duracell Inc., Pepsico, Milkfood Limited and Vardhman Spinning. Prior to joining us in August 2000, he worked with Ballarpur Industries Limited as its Group Vice President (People Development and Communications). Mr. Khandpur has been a part of Human Resources/ Business Programmes at Harvard Business School, Michigan University, Centre of Creative Leadership, IMD Switzerland, and NTL, USA. He has been a member of various forums such as Conference Board - New York and Human Resource Development Committees / Forums at CII, FICCI and Delhi Management Association. He has participated as a guest faculty in Management Development programs at the Indian Institute of Management, Ahmedabad and the Management Development Institute, Gurgaon.

Rajinder Sharma, age 44 years, is the Director — Legal & Company Affairs. Mr. Sharma is a law graduate (Honours) and has over 19 years of experience having worked with various companies such as Punjab Tractors, Tata Steel, Tata-IBM, Reliance Industries, and Escorts. Prior to joining us in September 2000, he worked with Lucent Technologies as its Regional Attorney. Mr. Sharma also worked as a practicing advocate and represented companies such as Procter & Gamble, Hindustan Levers and the Tata Group. He was nominated as Central Government Standing Counsel for the Excise and Customs Department in the Madhya Pradesh High Court. Mr. Sharma is a member of various institutions, including the Indian Society of International Law, Indian Council of Arbitration and Indian Institute of Administration and is a panel member of CII (Delhi zone) on Indirect Taxes.

T.R.Dua, age 55 years, is the Director — Corporate Relations. Mr. Dua is a graduate in Electrical Engineering and has a post-graduate diploma in Management. He joined us in April 2000 and has approximately 32 years of experience, having worked with Mekaster Telecom and defence services. Prior to joining us in April 2000, he worked with Shyam Telecom where he was responsible for many joint ventures in basic and cellular services in India. Mr. Dua is actively involved in various telecom associations such as the Institute of Electronics & Telecommunication Engineers (IETE), COAI, ABTO, CII, FICCI and Assocham.

Narender Gupta, age 43 years, is the Company Secretary. Mr. Gupta is a postgraduate in Business Management from the Indian Institute of Management Studies, Delhi, a law graduate from University of Delhi and a Fellow of the Institute of Company Secretaries of India. Mr. Gupta has over 21 years of experience. Prior to joining us, Mr. Gupta worked with DLF Cements as Senior General Manager of Corporate Affairs. Mr. Gupta is a member of the core group on corporate laws and policy of CII.

**Key Managerial Personnel of our Subsidiary Companies**

*Cellular Division*

Sanjay Kapoor, age 39 years, is the Executive Director of the Western Region of Bharti Cellular and is responsible for setting up and commencing cellular operations in the circles of Mumbai, Maharashtra, Gujarat and Madhya Pradesh. Mr. Kapoor is a commerce graduate and holds a postgraduate diploma in Management from Management Development Institute, Gurgaon. He has over 17 years of experience having worked with Modi Xerox and Jay Engineering Works. Mr. Kapoor joined Bharti Cellular as Chief Operating Officer in July 1998 and served as the Chief Executive Officer until July, 2001.

Jagdish Kini, age 46 years, is the Chief Executive Officer of the Andhra Pradesh and Karnataka cellular operations. Mr. Kini is a science graduate and holds a postgraduate diploma in Management (Finance) from Symbiosis Institute, Pune. Mr.Kini has also completed an Advance Management Programme at FontainBlue, France. He has over 21 years of experience in the industry and has worked with Siemens India, Proctor and Gamble, Park Davis and L'Oreal-Paris. Prior to joining Bharti Mobile, Mr. Kini was the Managing Director of Wilkinson Sword India.

P.H. Rao, age 56 years, is the Chief Executive Officer of the Chennai, Tamil Nadu and Kerala cellular operations. Mr. Rao is a Science graduate and has a Diploma in Electrical Engineering from Director of Technical Education, Andhra Pradesh. He has over 36 years of industry experience. Prior to joining us in January 2000, Mr. Rao worked with Crompton Greaves.

S.S.Dhillon, age 35 years, is the Chief Executive Officer of Delhi cellular operations. He is a Chartered Management Accountant and holds a post graduate degree in management with specialisation in Human Resources and Marketing from the University of Birmingham, United Kingdom. He has 13 years of work experience and has worked with General Motors, Pitney Bowes and British Telecom. Mr. Dhillon worked with Bharti Cellular as Chief Financial Officer for the period 1998 to 2000, while he was on secondment from British Telecom.

IB Mehra, age 48 years, is the Chief Executive Officer of the Punjab, Haryana and Himachal Pradesh cellular operations. Mr. Mehra is a commerce graduate and holds a postgraduate diploma in Management from Calcutta University. He has over 26 years of industry experience. He has worked with Keltron and Tata Telecom Limited. Prior to joining us, Mr. Mehra worked at Tata Telecom Limited as Vice President (Support).

Prabhat Pani, age 42 years, is the Chief Executive Officer of Gujarat and Madhya Pradesh cellular operations. Mr. Pani is an engineer from the Birla Institute of Technology & Science, Pilani and holds a postgraduate diploma in Management from the Indian Institute of Management, Ahmedabad. He has over 19 years of experience and has worked with the Tata Cellular Limited, Tata Teleservices Limited, BPL Cellular Limited, Harrisons Malayalam Limited and Tata Administrative Services. Prior to joining us in September 2001, Mr. Pani worked as Chief Executive Officer of IT Space.com.

Deepak Gulati, age 41 years, is the Chief Executive of Kolkata cellular operations. He is a science graduate and has a post graduate diploma in Management. He has over 19 years of industry experience and has worked with Goodlass Nerolac and Amrit International Limited. Prior to joining us in 1998, Mr. Gulati was General Manager of Mahavir Spinning Mills.

Elango Thambiah, age 35 years, is the Chief Operating Officer of the Kerala cellular operations. He is a graduate in Mechanical Engineering and has post graduate diploma in Management from the Indian Institute of Management, Ahmedabad. He has over 13 years of industry experience and has worked with Hindustan Aeronautics Limited and Titan Industries. Prior to joining us, Mr. Thambiah was Vice-President of Spice Telecom in Karnataka.

Pawan Kapur, age 51 years, is the Chief Executive of Andhra Pradesh cellular operations. He is a science graduate and has a post graduate diploma in Management from the Faculty of Management Studies, Delhi. He has over 29 years of industry experience and has worked with Shriram Group of Companies, Roneo Vickers Limited, Fusebase India Limited, Binatone Electronics Limited, J.K.Corp Limited, National Panasonic India, and J.K.Dairy Limited. Prior to joining us in 1999, Mr. Kapur was the Chief Executive Officer of Casio India Co. Limited

Atul Jhamb, age 40 years, is the Chief Operating Officer of the Mumbai cellular operations. He holds a post graduate diploma in Management (Marketing and Finance) from Bombay University. He has over 16 years of experience and has worked with Hutchison Max, Lakme Lever Limited and Voltas Limited. Prior to joining us in February 2000, Mr. Jhamb was working with American Express Bank.

Inder Bajaj, age 38 years, is the Chief Operating Officer of Maharashtra cellular operations. He holds a post graduate diploma in Management from Punjab University. He has over 15 years of industry experience and has worked with Modi Xerox Limited, Ballarpur Industries and Narang Metals Private Limited Prior to joining us in November, 1998, Mr. Bajaj was working with Modi Xerox.

V.K. Bhalla, age 51 years, is the Chief Operating Officer of Madhya Pradesh cellular operations. He holds a B.Sc. Engineering degree from Punjab University. He has over 30 years of industry experience and has worked with Standard TV, Punwire and Indian Space Research Organisation. Mr. Bhalla joined us in July, 1991.

K.S. Sachar, age 47 years, is the Chief Operating Officer of Uttar Pradesh (West) cellular operations. He holds a B.Sc. Engineering (Electronics & Communications) degree from University of Delhi. He has over 26 years of industry experience and has worked with Ahuja Radios, Escorts Limited, Uptron India Limited and Motorola. Prior to joining us in December, 1999, Mr. Sachar worked with Glenayre Electronics Int., USA as Country Manager of India, Sri Lanka, Bangladesh, Nepal and Maldives.

S. Venkatraman, age 42 years, is the Chief Operating Officer of Tamil Nadu cellular operations. Mr.Venkatraman is a commerce graduate from the University of Madras. He is a cost accountant and has a postgraduate diploma in Management from the Indian Institute of Management, Ahmedabad. He joined Bharti Mobinet in April, 1995. He has over 20 years of experience and has worked with A.F. Ferguson, Madras, Sundaram Fasteners (TVS group), Computer Point India and Titan Watches Limited. Prior to joining Bharti Mobinet, Mr. Venkatraman worked with Parry Engineering and Exports Limited (Murugappa group) as their Deputy General Manager (Finance) & Company Secretary.

*Access, Long Distance and Broadband Divisions*

Rohtash Mal, age 45 years, is the Chief Executive Officer of the Delhi fixed-line operations. Mr. Mal is an engineering graduate from the Indian Institute Technology, Delhi and has a post graduate diploma in Management from the Indian Institute of Management, Kolkata. He has over 22 years of experience and has worked with Ballarpur Industries and Maruti Udyog Limited. Prior to joining us, Mr. Mal was the Chief General Manager (Marketing) of Maruti Udyog.

K. Krishnan, age 46 years, is the Chief Executive Officer of the Tamil Nadu fixed-line operations. He is a Chartered Accountant and Cost Accountant. He has over 22 years of industry experience and has worked with Ashok Leyland Limited, AF Ferguson, Coromandel Fertilizers Limited, Fujitsu ICIM, and RPG Cellular Services. Prior to joining us in January 2001, Mr. Krishnan was the Managing Director of Saregama India.

Cherian Kuruvila, age 44 years, is the Chief Executive Officer of Karnataka fixed-line operations. He is an Electrical Engineer from Regional Engineering College, Calicut. He has over 20 years of industry experience. Prior to joining us in February 2001, Mr. Kuruvila was the Executive Director (Southern Division) of Modi Xerox.

Sumanjit Chaudhry, age 54 years, is the Chief Executive Officer of Haryana fixed-line operations. Mr. Chaudhry has masters degree in Chemical Science from Cambridge University. Mr. Chaudhry has over 29 years of industry experience and has worked with ICI Limited, ITC, Delta Services and Hytech Packs Private Limited.

P. Swaminathan, age 46 years, is the Chief Executive Officer of Madhya Pradesh fixed-line operations. Mr. Swaminathan is an engineer from the Indian Institute of Technology, Chennai and has a post graduate diploma in management from the Indian Institute of Management, Ahmedabad. He joined us as Chief Operating Officer, Bharti Telenet, Indore in July 1999 and has been Chief Executive Officer of Bharti Telenet since October 2000. He has over 22 years of experience and has worked with RK Swamy Advertising, and Shaw Wallace. Prior to joining Bharti Telenet, Mr. Swaminathan worked with BPL Mobile Limited as their Circle Head of Maharashtra.

N. Arjun, age 44 years, is the Chief Executive Officer of Bharti Telesonic. Mr. Arjun is a commerce graduate and holds Masters degree in Management from University of Madras. He has over 17 years of industry experience and prior to joining us in 1993, Mr. Arjun worked with United Pharma.

Ashok Juneja, age 44 years, is the Chief Executive Officer of Bharti Broadband Networks. Mr. Juneja is an engineer and has a postgraduate diploma in Management from the Indian Institute of Management, Kolkata. He has over 21 years of industry experience and prior to joining us in September 1998, Mr. Juneja was the Chief Operating Officer with Hutchison Max at Mumbai.

**Employees' Stock Option Plan**

In April 2001, we implemented an employee stock option plan called "Bharti Tele-Ventures Employees' Stock Option Plan" and issued grant letters to the employees specifying their entitlement to options to purchase equity shares of the Company under the plan. The employees, entitlement to options is based on past performance and compensation cost to the concerned company.

To implement the plan, we have set up an Bharti Tele-Ventures Employees' Welfare Trust, or the Trust, to which the equity shares have been and will be issued from time to time, and employees will purchase the equity shares from the Trust in the manner described below.

Our stock option plan currently consists of two parts. Under the first part of the plan, our employees are entitled to purchase equity shares at 50% of the Issue Price. The total equity shares that an employee is entitled to acquire will vest in four tranches over four years from the date of grant. The employees can exercise their option to purchase shares within a period of seven years from the date of grant in each of the four tranches.

Under the second part of the plan, Mr. Akhil Gupta, Joint Managing Director, is entitled to purchase 80,000 equity shares at face value of Rs.10 each (these shares are entitled to any bonuses, including 800,000 equity shares under the recent one for ten bonus issue) in two tranches over a period of two years from the grant date. The options for these equity shares must be exercised within 30 days from the date of vesting in each of the above tranches. These equity shares will be locked in for a period of two years from the date of grant.

To implement the plan, Bharti Tele-Ventures at present has issued 1,440,000 equity shares at Rs.565 per share to the Trust. Bharti Tele-Ventures also issued 14,440,000 bonus shares. All employees who have been granted options to purchase equity shares under the plan would also be entitled to receive additional equity shares in proportion to the recent bonus issue. To purchase these equity shares, the Trust has received loans from Bharti Tele-Ventures and its subsidiaries, in proportion to the entitlement of the employees of each company under the plan. The equity shares will be sold by the Trust to employees in the manner specified above. We will issue additional equity shares to the Trust from time to time, in accordance with the plan, to provide for the grant of additional options under the plan.

**Shareholding of the Key Managerial Personnel**

As of December 31, 2001, key managerial personnel, other than Mr. Sunil Bharti Mittal, Chairman and Managing Director, do not hold any equity shares of the Company. However, such personnel have been granted options under the "Bharti Tele-Ventures Employee Stock Option Plan".

**Bonus or Profit Sharing Plan for the Key Managerial Personnel**

Bharti Tele-Ventures has a performance bonus plan for its middle and senior management. The performance bonus of individual employees is based on the overall performance of Bharti Tele-Ventures as well as that of the employee.

**Changes in the Key Managerial Personnel in the Last Three Years**

Changes in the key managerial personnel in the last three years have been given below:

| Name of the Employee and Current Designation | Date of Joining | Reason |
|---|---|---|
| **Bharti Tele-Ventures** | | |
| **Financial Year Ended March 31, 2000** | | |
| Badri Agarwal, President – Access, Long Distance and Broadband Services | September 1999 | Joined |
| **Financial Year Ended March 31, 2001** | | |
| T.R. Dua, Director—Corporate Relations | April 2000 | Joined |
| Jagdeep Khandpur, Director—Human Resources | August, 2000 | Joined |
| Rajinder Sharma, Director—Legal & Company Affairs | September, 2000 | Joined |
| Sundar Vishwanathan, Chief Financial Officer | December 2000 | Joined |
| B.D. Khurana, President – Networks | February 2001 | Resigned |
| **Subsidiaries / Group Companies** | | |
| **Financial Year Ended March 31, 1999** | | |
| Sanjay Kapoor, Executive Director, Western region of Bharti Cellular | July 1998 | Joined |
| Sumanjit Chaudhry, Chief Executive Officer, Fixed-line Services (Haryana) | September 1998 | Joined |
| Ashok Juneja, Chief Executive Officer, Bharti Broadband Networks | September 1998 | Joined |
| Narender Gupta, Company Secretary | February 1999 | Joined |
| **Financial Year Ended March 31, 2000** | | |
| P. Swaminathan, Chief Executive Officer, Fixed-line services (Madhya Pradesh) | July 1999 | Joined |
| Kanwal Jit Singh Sachar, Chief Operating Officer, Cellular services [Uttar Pradesh (West)] | December 1999 | Joined |
| **Financial Year Ended March 31, 2001** | | |
| Jagdish Kini, Chief Executive Officer, Cellular services (Andhra Pradesh and Karnataka) | September 2000 | Joined |
| Rohtash Mal, Chief Executive Officer, Fixed-line services (Delhi) | November 2000 | Joined |
| P.H. Rao, Chief Executive Officer, Cellular services (Chennai, Tamil Nadu and Kerala) | January 2001 | Joined |
| K. Krishnan, Chief Executive Officer, Fixed-line services (Tamil Nadu) | January 2001 | Joined |
| Cherian Kuruvila, Chief Executive Officer, Fixed-line services (Karnataka) | February 2001 | Joined |
| **Current Financial Year** | | |
| S.S. Dhillon, Chief Executive Officer, Cellular services (Delhi and Uttar Pradesh (West)) | June, 2001 | Joined |
| Atul Kunwar, Chief Executive Officer – Bharti BT Internet | June 2001 | Resigned |
| Prabhat Pani, Chief Executive Officer, Cellular services (Gujarat and Madhya Pradesh) | September, 2001 | Joined |
| Elango Thambiah, Chief Operating Officer, Cellular services (Kerala) | October, 2001 | Joined |

**Employees**

As of November 30, 2001, we had 4,021 employees compared to approximately 2,474 employees as of November 30, 2000, a 63% increase which was due to our organic growth and our acquisition of SkyCell Communications (now Bharti Mobinet) and Spice Cell (now Bharti Mobitel). Our employees, as of November 30, 2001, classified by function, are as follows:

| Function | Cellular | Access | Long Distance and Broadband | Corporate Office | Total |
|---|---|---|---|---|---|
| Management | 49 | 19 | 7 | 6 | 81 |
| Financial, Accounting, Legal and Secretarial | 218 | 85 | 29 | 36 | 368 |
| Marketing and Sales | 901 | 351 | 104 | 6 | 1362 |
| Human Resources | 65 | 24 | 16 | 14 | 119 |
| General Administration | 17 | 15 | 4 | 21 | 57 |
| Technical and Engineering | 538 | 611 | 307 | 1 | 1457 |
| Others | 301 | 184 | 69 | 23 | 577 |
| **Total** | **2089** | **1289** | **536** | **107** | **4021** |

We expect the number of employees to increase as our business expands. During the eight month period ended November 30, 2001, our employee turnover was 8.2%. We also outsource work across all our divisions. Our employees do not belong to any union and are not represented by any formal employee association.

## OUR PROMOTER

Bharti Tele-Ventures has been promoted by Bharti Telecom. Bharti Telecom was incorporated on July 29, 1985 under the laws of India and is presently engaged in the promotion of telecommunication services through Bharti Tele-Ventures and its subsidiaries.

Bharti Telecom was earlier engaged in the activity of manufacturing electronic push button telephones, telephone answering machines, cordless telephones and marketing activites. With effect from April 1, 2000, these activities were transferred and vested with Bharti Teletech Limited, pursuant to the scheme of arrangement approved by the High Court of Punjab and Haryana on July 21, 2000.

Bharti Telecom was listed on the Delhi, Ludhiana, Kolkata and Mumbai stock exchanges. On November 14, 1996, one of its competitors made a public announcement expressing an intention to acquire 33,80,000 equity shares representing 20% of the paid up capital of Bharti Telecom at a price of Rs. 95 per share. Thereafter, such proposed acquisition was subject to SEBI review under Indian takeover regulations. However, before any specific formal offer was actually made, Bharti Enterprises Private Limited, together with Bharti Global Limited (collectively referred as “Acquirers”), made a public announcement in April, 1998 expressing their intention to acquire 41,45,796 equity shares, representing 24.53% of the paid up capital of Bharti Telecom, at Rs. 95 per share. The letter of offer was issued on May 18, 1998 and the offer closed on June 16, 1998. On September 30 1998, in accordance with SEBI directions, the competitor also made a public offer to acquire shares of Bharti Telecom at Rs.95 per share. In response to this, the Acquirers made a counter offer to acquire the remaining 19,29,933 equity shares, representing 11.42% of paid up capital of Bharti Telecom, at Rs.96 per share. This counter offer has been extended from time to time.

As a result of the above public offers made by the Acquirers, the public shareholding in Bharti Telecom was reduced below 10%. Consequently, in accordance with the provisions of the Indian Takeovers Regulations, Bharti Telecom was delisted by the Mumbai Stock Exchange in October, 1999. This was followed by delisting on the other stock exchanges which consist of the Kolkata, Ludhiana and Delhi stock exchanges with effect from November 1, 1999, January 25, 2000 and March 6, 2000 respectively. The Acquirers have continued to provide the exit opportunity to the shareholders and have given an undertaking to the Mumbai Stock Exchange to continue to provide this exit opportunity until June, 2002.

The shareholding pattern of Bharti Telecom as of December 31, 2001 is as under:

| **Shareholder** | **Shareholding (in %)** |
|---|---|
| Bharti Enterprises Private Limited | 26.84 |
| Bharti Overseas Trading Company | 20.90 |
| Pastel Limited (1) | 20.04 |
| Indian Continent Investment Limited | 28.53 |
| Public | 3.37 |
| NRIs | 0.32 |
| **Total** | **100.00** |

(1) Pastel Limited is an investment company of SingTel. It owns 17.7% and 20% in Bharti Tele-Ventures and Bharti Telecom, respectively, prior to the Offering. Pastel Limited has subscribed and paid for US$75 million compulsorily convertible debentures of Bharti Telecom. These, subject to applicable regulations are convertible into 1,884,896 equity shares in the issued capital of Bharti Telecom, or at the option of Pastel, into 68.75 million equity shares of Bharti Tele-Ventures held by Bharti Telecom. If the debentures are converted into shares of Bharti Telecom, Pastel Limited will own 27% shares in Bharti Telecom, which represent an effective 31.63% of the total outstanding equity shares in Bharti Tele-Ventures prior to the Offering and an effective 28.46% after the Offering. However, if Pastel Limited acquires equity shares of Bharti Tele-Ventures from Bharti Telecom, it will own an effective 31.35% of the total outstanding equity shares of Bharti Tele-Ventures prior to the Offering and an effective 28.22% after the Offering.

**Bharti Telecom’s Board of Directors:**

Mr. Sunil Bharti Mittal

Mr. Rajan Bharti Mittal

Mr. Akhil Gupta

Mr. Lim Toon

Mr. Sin Hang Boon

**Financial Highlights :**

The financial results of Bharti Telecom Limited, given below are in accordance with Indian Accounting Policies :

| | | **As of March 31,** | |
|---|---|---|---|
| | **1999** | **2000** | **2001** |
| | | **(in Rs. millions)** | |
| Sales and other income | 530 | 634 | 50 |
| Profit after tax | 40 | 20 | 36 |
| Equity capital | 169 | 169 | 169 |
| Share application money | - | - | 7243 |
| Reserves and surplus | 971 | 957 | 391 |
| Earning per share (in Rs.) | 2.4 | 1.2 | 2.12 |
| Book value (in Rs.) | 67.4 | 66.6 | 33.1 |

Bharti Telecom is the promoter of Bharti Tele-Ventures and accordingly is deemed to be promoter of its present subsidiaries. There are no loss making ventures of the promoter, Bharti Telecom, other than the subsidiaries of Bharti Tele-Ventures. For financial information and other details of companies promoted, directly or indirectly, by Bharti Tele-Ventures, please see 'Our History and Corporate Structure'.

Mr. Sunil Bharti Mittal is the promoter of Bharti Telecom.

Mr.Sunil Bharti Mittal, age 44 years, is the Chairman and Managing Director of Bharti Tele-Ventures. He is a graduate from Punjab University and has completed the "Owner / President Management Programme" from Harvard Business School in 1999. He started his career in 1976 by setting up a unit to manufacture bicycle components. In 1986, he entered into a partnership with Siemens to produce telephone equipment. Following the opening up of the Indian telecommunications sector to private sector participation in 1992, Mr. Mittal took advantage of the opportunity and acquired two cellular licenses and one fixed-line license. Bharti Cellular was the first private operator to launch cellular services in Delhi and Bharti Telenet was the first private operator to launch fixed line telecommunications services in Madhya Pradesh.

The chronology of events since 1976 when Mr.Mittal commenced his career is as follows:

| **Calendar Year** | **Events** |
|---|---|
| 1976-79 | • Set up a Small Scale manufacturing unit for bicycle components |
| 1980 | • Bharti Overseas Trading Corporation was set up |
| 1984 | • Bharti Healthcare was established |
| 1985 | • Bharti Telecom incorporated. Entered into technical tie-up with Siemens AG of Germany for manufacture of electronic push button telephones |
| 1989 | • Tied-up with Takacom Corporation, Japan, for manufacture of telephone answering machines |
| 1990 | • Tied-up with Lucky Gold Star International Corporation of South Korea for manufacture of cordless telephones |
| 1991 | • OEM Contract with Sprint, USA for manufacture and export of telephone sets |
| 1992 | • Formed a consortium with SFR-France, Emtel-Mauritius and MSI-UK, to bid for cellular licenses for metropolitan circles under Bharti Cellular |
| 1993 | • Awarded ISO 9002 accreditation for manufacturing unit at Gurgaon |
| 1994 | • Cellular license for Delhi circle obtained |
| 1995 | • Formed Siemens Telecom Limited, a joint venture with Siemens, to market telephone terminals under the SIEMENS and the BEETEL brand names. |
| | • Formed a consortium with Telecom Italia-Italy to bid for cellular and fixed-line services under Bharti Telenet |
| | • Commercial launch of cellular services *AirTel* by Bharti Cellular in Delhi circle. |
| | • Incorporated Bharti Tele-Ventures |
| 1996 | • Telecom Italia, Italy acquired 20% equity interest in Bharti Tele-Ventures |
| | • Launched cellular services in Himachal Pradesh |
| 1997 | • British Telecom joined the consortium by acquiring equity interest in Bharti Cellular |
| | • Fixed-line license for Madhya Pradesh obtained |
| | • Bharti Telecom and British Telecom formed a joint venture, Bharti BT, for VSAT services |
| 1998 | • First Indian private fixed-line services launched in Indore, Madhya Pradesh on June 4, 1998 by Bharti Telenet |
| | • Bharti Telecom and British Telecom formed a joint venture, Bharti BT Internet, for providing ISP services |
| | • Cellular services launched in Seychelles |
| | • British Telecom consolidated its shareholding in Bharti Cellular and enhanced its equity interest to 44% |
| 1999 | • Warburg Pincus, an international private equity investor, invested in Bharti Tele-Ventures |
| | • Acquired a controlling 32.26% effective equity interest in Bharti Mobile (formerlyJT Mobiles), the cellular operator in Andhra Pradesh and Karnataka |
| 2000 | • New York Life International acquired a 3% equity interest in Bharti Cellular |
| | • Acquired controlling interest of 40.5% in Bharti Mobinet (formerly SkyCell), the cellular services operator in the Chennai circle |
| | • SingTel invested in Bharti Telecom and Bharti Tele-Ventures |
| | • Acquired balance stake of 41.74% in Bharti Mobile taking the stake to 74% |

| Calendar Year | Events |
|---|---|
| 2001 | • Entered into joint venture with SingTel for a submarine cable landing station between India and Singapore<br>• SingTel, Warburg Pincus, AIF, IFC, NYLIF and Seejay Cellular made equity investments, of approximately US$ 481.30 million in Bharti Tele-Ventures and through Bharti Telecom<br>• Entered into licenses to provide cellular services in eight cellular circles and four fixed-line circles and restored the Punjab cellular license.<br>• Acquired 100% equity interest of Bharti Mobitel (formerly Spice Cell), the cellular services operator in Kolkata circle<br>• Acquired 44% equity interest from British Telecom in Bharti Cellular<br>• Acquired 39.78% and 49% equity interest from British Telecom in Bharti BT and Bharti BT Internet, respectively<br>• Acquired 15% equity interest of Intel and 85% of Bharti Telecom in Bharti Telespatial<br>• Acquired additional 49% equity interest of Millicom and Bellsouth in Bharti Mobinet and further increased equity to 89.5%. Our equity interest has further increased to 95.3% due to additional issuances of equity by Bharti Mobinet.<br>• Acquired three additional ISP licenses<br>• Bharti Telesonic entered into a license agreement to provide national long distance services across India<br>• Bharti Telesonic launched national long distance services under the brand name of "IndiaOne"<br>• Bharti Telenet launched fixed line services in Haryana under the brand name of "TouchTel" |

Mr. Sunil Bharti Mittal has, in a short span of time, successfully transformed Bharti Tele-Ventures into a prominent telecommunication services group with a nationwide footprint. Mr. Mittal has built various partnerships over the years with leading corporations like SingTel, Warburg Pincus, British Telecom, Telecom Italia, CGE France (now Vivendi), Casio, Duraline Intel, Emtel, International Finance Corporation, New York Life, Asian Infrastructure Fund (AIF) and AMP, Australia . Mr. Mittal has received the following recognitions:

- Achieved the prestigious distinction of being chosen as "Star of Asia" by international business magazine, *Business Week* for the year 2001;
- Honoured as "One of the top Entrepreneurs Worldwide" for the year 2000 by *Business Week*;
- Adjudged the Entrepreneur of the year 2000 – Information, Communication and Entertainment Sector of India by Ernst & Young, in 2000;
- "IT Ratna of the Millenium" – Wisitex 2000 International Award; and
- Telecom man of the year 1997 from *Information Communications World* in 1997.

Mr. Sunil Bharti Mittal is the founder, past president and chairman of various telecom industry associations such as Cellular Operators Association of India (COAI), Association of Basic Telecom Operators (ABTO), Telecom Equipment Manufacturers Association of India (TEMA) from 1990 to 1996 and FICCI Telecom Committee. He is a member of the Steering Committee and Executive Committee of FICCI. He is the Co-Chairman of the Indo-US Joint Business Council and is the Honorary Consul of the Republic of Seychelles in India.

Apart from Bharti Telecom and the companies promoted by Bharti Telecom, Mr. Sunil Bharti Mittal has, directly or indirectly, promoted the following companies / firms in India and outside India:

Bharti Enterprises Private Limited
Bharti Overseas Trading Company
Bharti Global Limited
Bharti Telecom Finance Limited
Bharti Healthcare Limited
Bharti Teletech Limited
Bharti Telesoft Limited
Bharti Systel Limited (formerly Siemens Telecom Limited)
Goa Telecommunications & Systems Limited
Bharti Infotrac Limited
Indian Ocean Telecom Limited
Telecom (Seychelles) Limited
Indian Continent Investment Limited
Bharti i2i Limited
Network i2i Limited

Bharti Telecom has not been restrained from accessing the capital markets for any reason by SEBI or any other regulatory authority in India. Bharti Telecom has disassociated from the following ventures in the last three years, by disinvesting to outside parties:

*Bharti Duraline Limited.* The company, a joint venture between Bharti Telecom Limited and Dura-Line Inc. USA, was established to manufacture and market Silicore, HDPE pipes, ducts, sibducts, accessories for telecommunication cabling. The company was incorporated on August 19, 1996 and commenced commercial production on September 10, 1997.

*Dura-Line Corp, USA*, as a part of its global strategy with specific focus towards Indian subcontinent, decided to further strengthen its commitment towards Indian telecommunication industry. In line with this strategy, it decided to further consolidate its existing holding through Dura-Line International Inc., USA by acquiring the remaining 50% from Bharti Teletech Ltd. in 2001, thereby taking its total equity holding to 100%.

*Casio Bharti Mobile Communications Limited.* The company, a joint venture between Bharti Telecom Ltd. and Casio Computer Co. Ltd., Japan, was established to manufacture, market and service radio pagers and related parts in India. The company was incorporated on January 26, 1996 and commenced commercial production on July 18, 1996. In July, 1998, Bharti Telecom sold its 40% equity interest to the other shareholder, Casio Computer Co. Ltd., Japan.

Bharti Telecom has no outstanding liability nor has it entered into any non-compete agreement to the above mentioned joint venture partners, in terms of these disassociations. Further, there are no outstanding litigations wherein Bharti Telecom has been named, in respect of the ventures from which it has disassociated itself, during the last three years.

**Common pursuits**

There are no other companies in the Bharti group which are engaged in the business of providing telecommunication services in India and that require a license from the DoT, other than the subsidiaries of Bharti Tele-Ventures.

**Interest of Promoters in Bharti Tele-Ventures and its subsidiaries**

Save as stated elsewhere in this red herring prospectus, the promoter, Bharti Telecom, does not have any interest in the business of Bharti Tel-Ventures, except to the extent of the investments made by it in Bharti Tele-Ventures and earning returns thereon. The related party transactions based on IAS Consolidated Financial Statements and Indian Accounting Policies Unconsolidated Financial Statements are as under:

**Related Party Transactions as per IAS Consolidated Financial Statements**

The significant related party transactions can be categorized as follows :

| Nature of Transaction | Year ended March 31, 1999 (Restated) | Year ended March 31, 2000 (Restated) | Year ended March 31, 2001 (Restated) | Six-month Period ended September 30, 2001 (Unaudited) | Year ended March 31, 2001 (Restated) | Six-month Period ended September 30, 2001 (Unaudited) |
|---|---|---|---|---|---|---|
| | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| (a) BTL | | | | | | |
| *(The Parent)* | | | | | | |
| Telephone instruments purchased from BTL | 6,247 | 23,758 | - | - | - | - |
| Purchase of billing software from BTL | 36,000 | - | - | - | - | - |
| Advance to BTL for purchase of shares in 'BTPL' | - | - | 13,700 | - | 286 | - |
| Advance to BTL for acquisition of land | - | 49,809 | - | - | - | - |
| Management fees paid to BTL | 66,264 | 60,234 | 41,300 | - | 862 | - |
| Employee costs incurred on behalf of the Group and recovered | 26,524 | 35,572 | 36,494 | 50 | 762 | 1 |
| Guarantee fee paid to BTL | - | 7,328 | 8,048 | 1,097 | 168 | 23 |
| Fixed assets purchased from BTL | - | 57,796 | 72,140 | - | 1,506 | - |
| Deposit acquired by BTVL from BTL | - | 5,090 | - | - | - | - |
| Advertisement expenses incurred on behalf of the Group and recovered | - | 22,943 | 124,369 | - | 2,596 | - |
| Advertisement expenses paid by BTL | - | - | - | 1,275 | - | 27 |
| Intercorporate deposit given by Bharti Comtel | - | - | - | 10,575 | - | 221 |
| Interest on loan from group companies | - | - | - | 4,181 | - | 87 |
| Sale of internet services made to BTL | - | - | 29 | - | 1 | - |
| Expenses incurred on behalf of BTVL and recovered | 18,063 | 22,742 | 23,734 | 182 | 495 | 4 |

| Nature of Transaction | Year ended March 31, 1999 (Restated) | Year ended March 31, 2000 (Restated) | Year ended March 31, 2001 (Restated) | Six-month Period ended September 30, 2001 (Unaudited) | Year ended March 31, 2001 (Restated) | Six-month Period ended September 30, 2001 (Unaudited) |
|---|---|---|---|---|---|---|
| | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| (b) Bharti Duraline Limited | | | | | | |
| *(Significant interest entity upto April 11, 2001)* | | | | | | |
| Purchase of ducts and other accessories by the Group at market values | 39,849 | 59,216 | 132,963 | - | 2,776 | - |
| Interest bearing short-term deposits net of repayment of Rs 7,200 (2000 – Rs Nil, 1999 – Rs Nil) | - | 7,200 | - | - | - | - |
| Interest free short-term loan net of repayment of Rs 3,895 | - | - | 5,000 | - | 104 | - |
| Other costs/ expenses incurred on behalf of BDL | - | - | 259 | - | 6 | - |
| (c) BBTIL | | | | | | |
| *(Associated Company upto March 30, 2001)* | | | | | | |
| Advertisement expenses incurred on behalf of BBTIL and recovered | - | 5,052 | - | - | - | - |
| Internet services provided to the Group at market rates | - | 42 | 4,982 | - | 104 | - |
| Purchase of software for BBTIL | - | - | 1,252 | - | 27 | - |
| Other expenses incurred on behalf of BBTIL and recovered | - | - | 870 | - | 18 | - |
| (d) BTFL | | | | | | |
| *(Significant interest entity)* | | | | | | |
| Interest bearing short-term deposits, net of repayments of Rs Nil (2000 - Rs 292,848, 1999 - Rs 39,842) | 257,985 | 16,173 | 76,377 | - | 1,595 | - |
| Interest on short-term deposits | 65,071 | 14,035 | 6,819 | - | 142 | - |
| Sale of bonds to BTFL | 220,554 | - | - | - | - | - |
| Commission paid to BTFL for SkyCell acquisition | - | - | 50,000 | - | 1,044 | - |
| (e) BBTL | | | | | | |
| *(Associated Company upto June 30, 2001)* | | | | | | |
| Purchase of assets from BBTL | - | - | 71,456 | - | 1,492 | - |
| Other expenses incurred on behalf of the Group | - | - | 5,726 | - | 120 | - |
| Sale of internet services to BBTL | - | - | 391 | - | 8 | - |
| Expenses incurred on behalf of BBTL | - | - | 293 | - | 6 | - |
| (f) Bharti Telesoft Limited ('Telesoft') | | | | | | |
| *(Significant interest entity)* | | | | | | |
| Sale of software and assets | - | - | - | 10,186 | - | 213 |
| Sale of internet services to BBTIL | - | - | 1,360 | 204 | 28 | 4 |
| Purchases and other expenses incurred on behalf of the Group | - | - | 9,534 | 9,616 | 199 | 201 |
| Advance for purchase of assets | - | - | 184,963 | - | 3,861 | - |
| Intercorporate deposit placed by the Group | - | - | - | 151,196 | - | 3,156 |
| Other expenses paid by Telesoft | - | - | - | 520 | - | 11 |
| Software related services provided to the Group and recovered | - | - | 2,964 | 4,746 | 62 | 99 |

| Nature of Transaction | Year ended March 31, 1999 (Restated) | Year ended March 31, 2000 (Restated) | Six-month Year ended March 31, 2001 (Restated) | Period ended September 30, 2001 (Unaudited) | Six-month Year ended March 31, 2001 (Restated) | Period ended September 30, 2001 (Unaudited) |
|---|---|---|---|---|---|---|
| | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| (g) Bharti Teletech Limited ('BTTL') | | | | | | |
| *(Significant interest entity)* | | | | | | |
| Purchase of software on behalf of BTTL | - | - | 1,283 | - | 27 | - |
| Payment of rent by BTTL | - | - | - | 170 | - | 4 |
| Other expenses paid by the Group companies | - | - | - | 157 | - | 3 |
| Purchase of telephone equipment by the Group | - | - | 23,302 | 7,697 | 486 | 160 |
| (h) Goa Telecom Limited ('GTL') | | | | | | |
| *(Significant interest entity)* | | | | | | |
| Purchase of equipment from GTL | 4,636 | - | - | - | - | - |
| (j) Bharti Systel ('BSTL') | | | | | | |
| Purchase of telephone equipment by the Group | - | - | - | 4,211 | - | 88 |
| (k) Bharti Inforac ('BIFC') | | | | | | |
| Sale of assets by BBTIL | - | - | - | 6,935 | - | 145 |
| Expenses incurred on behalf of the Group | - | - | - | 889 | - | 19 |
| (l) Sunil B Mittal | | | | | | |
| *(Significant influence over BTVL)* | | | | | | |
| Salary and allowances | 1,071 | 1,077 | 1,073 | 14,902 | 22 | 311 |
| Commission | - | 9,077 | 48,021 | - | 1,003 | - |
| (m) Rajan B Mittal | | | | | | |
| *(Significant influence over BTVL)* | | | | | | |
| Salary and allowances | 909 | 1,189 | 2,767 | 1,361 | 58 | 57 |

(n) SkyCell

*(Associate Company upto September 13, 2001)*

The Company has given interest bearing loans and funded the capital and other expenditure aggregating to Rs. 654,084 at March 31, 2001 and Rs 73,851 at March 31, 2000.

Other related entities include Bharti Enterprises Limited ('BEL') (*shareholder in BTL*) and Bharti Overseas Trading Company ('BOTC') (*indirect control over BTVL*) and Bharti Healthcare Limited ('BHCL') (*significant interest entity*). The Group has entered into transactions with these entities with a total value of less than Rs. 1 million during the six-month period ended September 30, 2001 and the years ended March 31, 2001, 2000 and 1999.

The balance sheet includes the following amounts resulting from transactions with the related parties:

| | March 31, 2000 (Restated) | March 31, 2001 (Restated) | September 30, 2001 (Unaudited) | September 30, 2001 (Unaudited) |
|---|---|---|---|---|
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Receivables from related parties | 230,441 | 1,463,999 | 9,154 | 191 |
| Payables to related parties | 14,216 | 68,655 | 38,946 | 813 |

Employee benefits paid or accrued to the Members of the Groups's Board of Directors ('Directors'), other than payments to Sunil B Mittal and Rajan B Mittal, were Rs 34,801 for the six-month period ended September 30, 2001 and Rs. 21,326, Rs. 19,614 and Rs. 10,163 for the years ended March 31, 2001, 2000 and 1999, respectively. Further, the Group has also paid or accrued Rs. 21,810 for the six-month period ended September 30, 2001 and Rs. 14,965, Rs. 4,265 and Rs. 2,115 for the years ended March 31, 2001, 2000 and 1999, respectively, to the Directors or their associates for other services of specialised nature.

bharti

**Related Party Transactions as per Indian Accounting Standards Unconsolidated Financial Statements**

(Rs.' 000)

| Name | Particulars of Sale, Purchase, Income and Expenditure of BTVL | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|---|
| Bharti BT Internet Limited | Purchase of Internet services | 376 | 407 | 15 | | | |
| | Purchase of Fixed Assets | | 1,046 | | | | |
| | Interest paid on ICD | | 627 | | | | |
| Bharti BT Limited | Purchase of V-Sat services | | 13 | | | | |
| | Profit on sale of assets / Services | 2,933 | 250 | | | | |
| Bharti Cellular Limited | Purchase of cellular services | 2,266 | 2,375 | 382 | 233 | 122 | |
| | Interest received on ICDs | | | | 10,671 | 64,595 | 26,404 |
| | Guarantee Fee received | 15,201 | 4,393 | 8,793 | 8,779 | 123 | |
| | Interest paid | | | | 842 | | |
| | Liasoning and other service charges received | | 3,150 | | | | |
| | Management fee received | 12,540 | 2,001 | | | | |
| | Purchase of Fixed Assets | | 915 | 52 | 135 | | |
| | Sale of Investments | 2,232,032 | | | | | |
| Bharti Healthcare Limited | Interest received on ICD | | | | | | 502 |
| Bharti Telecom Finance Limited | Interest received on ICD | | | | | | 17,358 |
| | Commission paid for placement of funds | | | | | 906 | 16,404 |
| | Commission paid for acquisition of shares in Skycell Communications Limited | | | 50,000 | | | |
| Bharti Telecom Limited | Interest received | | | | | | 3,489 |
| | Interest paid | 4,181 | | 707 | 484 | 1,667 | |
| | Purchase of Assets | | | 54,259 | | | |
| | Management fee and service charges paid | 9,093 | 12,125 | 12,057 | 12,000 | 12,000 | |
| | Sale of Preference Shares | | | | | | 70,000 |
| | Purchase of Equity Shares in Bharti Telespatial Limited | | 13,700 | | | | |
| Bharti Telenet Limited | Equipment lease rent income. | 3,664 | 34,542 | 29,182 | 7,955 | 6,960 | 1,740 |
| | Sale of Bonds | | 498,360 | 52,016 | 66,680 | 53,521 | |
| | Liaison and Support service charges received | | 4,851 | | | | |
| | Management fee received | | 1,500 | | | | |
| | Purchase of Bonds | | | 57,575 | | | |
| | Interest received on advances | | 14,466 | | | | |
| | Sale of Investments | 750,066 | | | | | |
| Bharti Telesoft Limited | Purchase of software | 835 | 2,838 | | | | |
| Bharti Telesonic Limited | Interest received on advances | | 25,193 | | | | |
| | Sale of Investment | 0.1 | | | | | |
| S.C. Cellular Holdings Limited | Sale of investment in Skycell Communications Limited | | 1,550,000 | | | | |
| Bharti Broadband Networks Ltd. | Purchase of Fixed Assets | 150 | | | | | |
| Bharti Mobile Limited | Management fee received | 5,124 | | | | | |
| Bharti Enterprises Private Limited | Interest paid on ICD | | 528 | | | | |
| Bharti Overseas Trading Company | Sale of Fixed Assets | 272 | 155 | | | | |

## EXCHANGE RATES

The following table sets forth, for the periods and dates indicated, information concerning the number of Indian rupees for which one U.S. dollar could be exchanged based on the noon buying rate in the City of New York for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York:

| **Financial Year Ended March 31,** | **Period End** | **Average (1)** | **High** | **Low** |
|---|---|---|---|---|
| 1997 | Rs.35.88 | Rs.35.70 | Rs.34.15 | Rs.26.85 |
| 1998 | 39.53 | 37.37 | 40.40 | 35.71 |
| 1999 | 42.50 | 42.27 | 43.60 | 39.41 |
| 2000 | 43.65 | 43.46 | 43.75 | 42.50 |
| 2001 | 46.85 | 45.88 | 47.47 | 43.63 |
| Six months ended September 30, 2001 | 47.90 | 47.20 | 48.91 | 46.58 |

(1) Represents the average of the noon buying rate on the last day of each month during the relevant period.

## CURRENCY OF PRESENTATION

In this red herring prospectus, all references to "Indian rupees," "rupees" and "Rs." are to the legal currency of India and all references to "U.S. dollars," "dollars", "US$" and "$" are to the legal currency of the United States. For the convenience of the reader, this red herring prospectus contains translations of some Indian rupee amounts into U.S. dollars which should not be construed as a representation that those Indian rupee or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or Indian rupees, as the case may be, at any particular rate, the rate stated below, or at all. Except as otherwise stated in this red herring prospectus, all translations from Indian rupees to U.S. dollars contained in this red herring prospectus have been based on the noon buying rate in the City of New York on September 28, 2001 for cable transfers in Indian rupees as certified for customs purposes by the Federal Reserve Bank of New York. The noon buying rate on September 28, 2001 was Rs.47.90 per US$1.00.

Our consolidated financial statements have been prepared in Indian Rupees and have been presented in accordance with International Accounting Standards, or IAS for the financial years ended March 31, 1999, 2000 and 2001 and six months ended September 30, 2001. Solely for your convenience, our financial statements as of and for the financial year ended March 31, 2001 and the six months ended September 30, 2001 have been translated into U.S. dollars at the rate of Rs.47.90 per US$1.00, the noon buying rate on September 28, 2001.

## SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

You should read the following selected consolidated financial data presented in accordance with IAS in conjunction with our consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this red herring prospectus. Our consolidated financial statements have been prepared in Indian Rupees and have been presented in accordance with IAS for the financial years ended March 31, 1999, 2000, 2001 and six months ended September 30, 2001.

In May 2001, we acquired 85 per cent equity share capital of Bharti Telespatial from Bharti Telecom and consequently, an indirect interest in the subsidiaries of Bharti Telespatial. As we and Bharti Telespatial are under the common control of Bharti Telecom, this re-organisation has been accounted for on the 'Uniting of Interest' method and the effect of this re-organisation has been reflected in all the periods presented in these financial statements. Further, the assets, liabilities, revenues and expenses of Bharti Telespatial have been included in the respective line items for the financial years 1999, 2000 and 2001 and to this extent, the financial statements of these periods have been restated.

Solely for your convenience, the consolidated financial statements for the financial years ended March 31, 2001 and the six months ended September 30, 2001 have been translated into U.S. dollars at the noon buying rate on September 28, 2001, which was Rs.47.90 per US$1.00. For further details, see "Currency of Presentation".

In accordance with SEBI requirements, we have also included in this red herring prospectus the restated financial statements of Bharti Tele-Ventures and its subsidiaries presented in Indian Rupees and presented in accordance with Indian Accounting Standards for the financial years ended March 31, 1997, 1998, 1999, 2000, 2001 and the six months ended September 30, 2001. For the aforesaid periods, there is no requirement under Indian Accounting Standards to consolidate the results of operations of our subsidiary companies in Bharti Tele-Ventures' financial statements. Accordingly, our financial statements prepared in accordance with Indian Accounting Standards are not consolidated and are, therefore, not comparable with those prepared in accordance with IAS. For further details, see "Significant Differences between IAS, Indian Accounting Policies and US GAAP".

The Institute of Chartered Accountants of India has issued a new accounting standard, accounting standard number 21, on consolidation of financial statements. This accounting standard will apply to all financial statements prepared in accordance with Indian Accounting Standards for periods commencing on or after April 1, 2001. Our financial statements consolidated in accordance with IAS may differ from those consolidated under the Indian Accounting Standards.

The selected consolidated historical financial and other data includes a presentation of adjusted EBITDA. Adjusted EBITDA represents earnings (loss) before depreciation, pre-operating costs, amortization, interest and taxation. In calculating adjusted EBITDA, we have not considered expenses incurred on the new cellular or fixed-line circles currently being developed by us, since we believe that if such costs are included, it would not accurately represent our operational performance in the existing circles. Adjusted EBITDA is presented because we believe some investors find it to be a useful tool for measuring a company's ability to fund capital expenditures or to service future debts. Adjusted EBITDA is not a standard term in accordance with IAS or Indian Accounting Standards and should not be considered in isolation or as an alternative to net income, as an indicator of operating performance or as an alternative to cash flow as a measure of liquidity. Because adjusted EBITDA considers earnings before interest expense, negative adjusted EBITDA (before pre-operating costs) would limit our ability to fund capital expenditures and service future debt obligations.

For our cellular segment and for our consolidated results, we have computed adjusted EBITDA margins on proforma revenue and total revenue basis. Proforma revenues are service revenues less access and interconnection costs incurred for our cellular business and are unaudited. Service revenues exclude revenues from equipment sales. We believe that proforma revenues, calculated in this manner, are more representative of our revenue stream for the cellular business, as access and interconnection costs, which we collect from our customers for interconnecting with the fixed-line network are passed on to BSNL or MTNL, in accordance with our interconnection arrangements. Until January 25, 2001, we passed on the entire charges collected from our customers, while subsequently, we have been passing on 95% of call charges collected from our customers, in accordance with a notification issued by the DoT. Any change in our interconnection arrangements regarding sharing of revenues from calls will have an impact on the proforma revenues, and may result in us calculating adjusted EBITDA margins only on the basis of total revenues, which includes access charges and revenue from equipment sales, if any. Other companies may calculate adjusted EBITDA or adjusted EBITDA margin in a manner different than ours.

In this red herring prospectus, any discrepancies in any table between totals and the sums of the amounts listed are due to rounding off.

## SELECTED HISTORICAL CONSOLIDATED FINANCIAL DATA

| | For the financial year ended March 31, 1999 | 2000 | 2001 | Six months ended September 30, 2001 | For the financial year ended March 31, 2001 | Six months ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | (Restated) | (Unaudited) |
| ***Consolidated income statement data*** | **(in millions, except ratios and per share data)** | | | | | |
| **Operating revenue:** | | | | | | |
| Usage revenue[1] | Rs.1,290 | Rs.2,172 | Rs.3,763 | Rs.2,668 | $79 | $56 |
| Fixed monthly subscription charges | 322 | 768 | 1,879 | 1,170 | 39 | 24 |
| Access charges | 376 | 696 | 1,277 | 1,004 | 27 | 21 |
| Others[2] | 304 | 707 | 1,542 | 1,216 | 32 | 25 |
| Service revenue | 2,292 | 4,343 | 8,462 | 6,192 | 177 | 129 |
| Equipment sales | 157 | 138 | 20 | 55 | - | 1 |
| Total revenue | 2,449 | 4,481 | 8,481 | 6,248 | 177 | 130 |
| Proforma revenues[3] | 1,891 | 3,681 | 7,232 | 5,240 | 151 | 109 |
| **Operating expenses:** | | | | | | |
| Access and interconnection costs | 430 | 787 | 1,482 | 1,141 | 31 | 24 |
| Network operation costs | 238 | 504 | 960 | 691 | 20 | 14 |
| Employee costs | 208 | 382 | 697 | 575 | 16 | 12 |
| Others | 835 | 1,135 | 2,495 | 1,484 | 52 | 31 |
| Total operating expenses excluding license fees and pre-operating costs | 1,711 | 2,808 | 5,634 | 3,891 | 118 | 81 |
| License fees | 703 | 817 | 917 | 681 | 19 | 14 |
| Adjusted EBITDA | 35 | 856 | 1,930 | 1,676 | 40 | 35 |
| Depreciation and amortisation | 409 | 921 | 1,690 | 1,197 | 35 | 25 |
| Non-operating income | 5 | 14 | 25 | 22 | 1 | |
| Finance Cost, net | 169 | 633 | 959 | 59 | 20 | 1 |
| Loss of Associates/ joint venture | 23 | 114 | 305 | 43 | 7 | 1 |
| Earnings before taxation | (561) | (797) | (1,102) | 181 | (23) | 4 |
| Income-tax income (expense) | 105 | 80 | 46 | (156) | 1 | (3) |
| Profit or (loss) before minority interests | (456) | (717) | (1,056) | 24 | (22) | 1 |
| Net profit /(loss) | (322) | (550) | (1,208) | (158) | (25) | (3) |
| Net profit /(loss) per common share | (0.21) | (0.35) | (0.74) | (0.10) | (0.016) | (0.002) |
| **Ratios and other financial data** | | | | | | |
| Adjusted EBITDA | 35 | 856 | 1,930 | 1,676 | 40 | 35 |
| Adjusted EBITDA margin on proforma revenues (%)[3] | 1.9% | 23.35% | 26.7% | 32.0% | 26.7% | 32.0% |
| Adjusted EBITDA margin on total revenues (%) | 1.4% | 19.1% | 22.8% | 26.8% | 22.8% | 26.8% |

(1) Usage revenue comprises revenue from airtime charges and call revenue.

(2) Comprises revenue from other services, including activation charges, roaming revenues and revenues from providing value added services.

(3) Proforma revenues are calculated as service revenues less access and interconnection costs incurred for our cellular business and are unaudited. Service revenues exclude revenues from equipment sales. We believe that proforma revenues, calculated in this manner, are more representative of our revenue stream for the cellular business, as access and interconnection costs, which we collect from our customers for interconnecting with fixed-line network are passed on entirely to BSNL or MTNL, in accordance with our interconnection arrangements. Until January 25, 2001, we passed on the entire charges collected from our customers, while subsequently, we have been passing on 95% of call charges collected from our customers, in accordance with a notification issued by the DoT. Any change in the interconnection arrangements regarding sharing of revenues from calls will have an impact on the proforma revenues and may result in us calculating adjusted EBITDA margins only on the basis of total revenues, which includes access charges and revenue from equipment sales, if any.

| | For the financial year ended March 31, | | Six months ended September 30, 2001 | |
|---|---|---|---|---|
| | 2000 | 2001 | | |
| *Consolidated balance sheet data* | (in millions) | | | |
| Current assets | Rs.3,945 | Rs.7,967 | Rs.9,289 | US$194 |
| Net property, plant and equipment (including capital work-in-progress) | 8,189 | 13,493 | 19,244 | 402 |
| Goodwill | 3,725 | 12,014 | 26,041 | 544 |
| Total assets | 16,764 | 35,642 | 63,641 | 1,329 |
| Long-term debt, net of current portion | 7,119 | 7,210 | 9,893 | 207 |
| Short-term borrowings | 1,229 | 1,007 | 3,130 | 65 |
| Total shareholders' equity | 4,222 | 18,955 | 41,540 | 867 |

| | For the financial year ended March 31, | | | Six months ended September 30, 2001 | For the financial year ended March 31, 2001 | Six months ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | | | |
| *Consolidated cash flow data* | (in millions) | | | | | |
| Net cash provided / (used) by/ in operating activities | Rs.1,059 | Rs.(1,905) | Rs.1,190 | Rs.(4,115) | $25 | $(86) |
| Net cash provided / (used) by/ in investing activities | (3,656) | (3,599) | (10,866) | (20,455) | (227) | (427) |
| Net cash provided/ (used) by/ in financing activities | 2,594 | 5,528 | 9,860 | 24,822 | 206 | 518 |
| Net increase/ (decrease) in cash and cash equivalents | (4) | 24 | 184 | 252 | 4 | 5 |

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*You should read the following discussion of our financial condition and results of operations together with the consolidated financial statements and the notes to those statements included in this red herring prospectus. The following discussion is based on our audited consolidated financial statements, which have been prepared in accordance with IAS, and on information available from other sources. Our financial year ends on March 31 of each year, so all references to a particular financial year are to the twelve months ended March 31 of that year.*

**Overview**

We are India's leading private sector provider of telecommunications services based on an aggregate of approximately 1,340,000 customers as of November 30, 2001, consisting of approximately 1,048,000 cellular, 135,000 fixed-line and 157,000 Internet customers. Our strategic objective is to capitalise on the growth opportunities available in the Indian telecommunications industry and to become the leading integrated telecommunication services provider in key markets in India, with a focus on providing cellular services. We have organized our operations along the following four principal business areas.

*Cellular business.* We presently offer cellular services in the metropolitan areas of Delhi (India's national capital region), Chennai and Kolkata and in the circles of Karnataka, Andhra Pradesh and Himachal Pradesh. We had approximately 1,048,000 cellular customers as of November 30, 2001, which represented a 137% increase from approximately 442,000 cellular customers as of November 30, 2000. This increase has been a result of a combination of organic growth and acquisitions. The cellular business is currently our largest business segment in terms of total revenue and adjusted EBITDA, with our cellular operations in Delhi contributing approximately 95%, 79% and 56% of our revenues in the financial years 1999, 2000 and 2001. In the six months ended September 30, 2001, our Delhi circle contributed approximately 48% of our total revenues. We have recently entered into licenses with the DoT to provide cellular services in the metropolitan area of Mumbai and the circles of Maharashtra, Gujarat, Tamil Nadu, Kerala, Madhya Pradesh, Uttar Pradesh (West) and Haryana and have restored the license to provide cellular services in the Punjab circle.

*Access business.* We currently provide fixed-line services in 27 cities in the Madhya Pradesh circle, which encompasses the states of Madhya Pradesh and Chattisgarh and two cities in Haryana. As of November 30, 2001, we had approximately 135,000 fixed-line customers, which represented a 48% increase from approximately 91,400 customers as of November 30, 2000. We commenced fixed-line services in Haryana in December 2001. We also have licenses from the DoT to provide fixed-line services in the circles of Delhi, Karnataka and Tamil Nadu.

*Long distance business.* We have entered into a license with the DoT to provide national long distance services. In December 2001, we commenced offering data services in certain regions in India and expect to commence providing voice services between cellular subscribers from January 26, 2002, subject to receipt of approval from TRAI with respect to our tariff structure. We also intend to provide national long distance services to fixed-line customers, subject to entering into suitable interconnection and technical arrangements with fixed-line operators. We are also constructing a submarine cable landing station at Chennai to provide international bandwidth access in India.

*Broadband business.* We presently provide VSAT based communication services to corporate customers and Internet services to corporate and residential customers. We are also providing broadband solutions to our corporate and small and medium business customers for various end uses, including data, IT-enabled services and other services with high bandwidth demand by leveraging the bandwidth available in our other business areas and our strong presence in the Indian telecommunications sector.

Of these business areas, only our cellular and access businesses contributed to our revenues in the financial years 1999, 2000, 2001; our broadband business started contributing to our revenues during the six months ended September 30, 2001. Cellular services comprised a significant proportion of our business, contributing approximately 96%, 89%, 87% and 85% of our revenues in the financial years 1999, 2000, 2001 and six months ended September 30, 2001, respectively. In the periods ended September 30, 2001, we reported our revenues and expenses under the following segments:

| | | |
|---|---|---|
| *Cellular* | : | This segment represents our revenues and expenses from our cellular business. |
| *Access* | : | This segment represents our revenues and expenses from our access business. |
| *Long Distance* | : | This segment represents our expenses from our long distance business. |
| *Broadband* | : | This segment represents our revenues and expenses from our Internet, VSAT and broadband businesses. |
| *Others* | : | This segment includes the expenses incurred by us in connection with constructing a submarine cable landing station and also includes corporate and other overhead costs, which cannot be allocated to any of our other business segments. |

We operate our telecommunications businesses through our subsidiaries. Our consolidated results of operations have changed considerably over the past three financial years, making it difficult to compare our results of operations from one financial year to the next. We have consolidated the results of operations of our subsidiaries, in accordance with IAS 22, in the manner set forth below. For further details, see notes 2(c) and 36 to our consolidated financial statements prepared in accordance with IAS.

For the financial year 1999, we have consolidated the financial statements reflecting the results of our cellular operations in the Delhi and Himachal Pradesh circles and our fixed-line operations in the Madhya Pradesh circle since commencement of operations in June 1998.

For the financial year 2000, we have consolidated the financial statements reflecting the results of our cellular operations in the Delhi and Himachal Pradesh circles for the entire year and the Karnataka and Andhra Pradesh circles for a period of four months, commencing December 1, 1999. The results of our fixed-line operations in the Madhya Pradesh circle have been consolidated for the entire year.

For the financial year 2001, we have consolidated the financial statements reflecting the results of our cellular operations in the Delhi, Karnataka, Andhra Pradesh and Himachal Pradesh circles and our fixed-line operations in the Madhya Pradesh circle for the entire year.

For the six months ended September 30, 2001, we have consolidated the financial statements reflecting the results of our cellular operations in the Delhi, Karnataka, Andhra Pradesh and Himachal Pradesh circles. The financial statements of our Kolkata operations and our Chennai operations have been consolidated with effect from July 16, 2001 and September 13, 2001, respectively. The financial statements reflecting the results of our fixed-line operations in the Madhya Pradesh circle have been consolidated for six months ended September 30, 2001. The financial statements reflecting the results of our Internet and VSAT businesses have been consolidated with effect from May 31, 2001 and June 30, 2001, respectively.

Since our long distance business had not commenced operations as of September 30, 2001, revenues and expenses (except as described above) related to these businesses have not been reflected in our results of operations for the financial years 1999 through 2001 and the six months ended September 30, 2001.

The following table sets forth our total revenue, adjusted EBITDA and net loss (on a consolidated basis) from our different circles in the financial years 1999 through 2001and the six months ended September 30, 2001:

| | Financial year ended March 31, | | | | | | Six months ended September 30, 2001 | |
|---|---|---|---|---|---|---|---|---|
| | 1999 | | 2000 | | 2001 | | | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| | (in millions, except percentage data) | | | | | | | |
| **Revenue :** | | | | | | | | |
| Cellular Business | | | | | | | | |
| Delhi[(1)] | Rs.2,324 | 95% | Rs.3,526 | 79% | Rs.4,751 | 56% | Rs.2,977 | 48% |
| Karnataka | - | - | 243 | 5% | 1,558 | 18% | 1,204 | 19% |
| Andhra Pradesh | - | - | 158 | 4% | 978 | 12% | 785 | 13% |
| Himachal Pradesh | 28 | 1% | 48 | 1% | 102 | 1% | 82 | 1% |
| Kolkata[(2)] | - | - | - | - | - | - | 214 | 3% |
| Chennai[(2)] | - | - | - | - | - | - | 59 | 1% |
| Access Business | 97 | 4% | 506 | 11% | 1,092 | 13% | 755 | 12% |
| Broadband business | - | - | - | - | - | - | 171 | 3% |
| **Total revenues** | 2,449 | 100% | 4,481 | 100% | 8,481 | 100% | 6,247 | 100% |
| **Adjusted EBITDA[(3)]:** | | | | | | | | |
| Cellular Business | | | | | | | | |
| Delhi | Rs.525 | | Rs.1,061 | | Rs.1,493 | | Rs.1,187 | |
| Karnataka | - | | 100 | | 347 | | 444 | |
| Andhra Pradesh | - | | (12) | | 148 | | 184 | |
| Himachal Pradesh | (54) | | (15) | | (4) | | 15 | |
| Kolkata | - | | - | | - | | 51 | |
| Chennai | - | | - | | - | | 29 | |
| Access Business | (407) | | (214) | | 180 | | 181 | |
| Broadband Business | - | | - | | - | | (150) | |
| Others | (29) | | (63) | | (250) | | (283) | |
| Eliminations | - | | - | | 16 | | 18 | |
| **Total adjusted EBITDA[(2)].** | 35 | | 856 | | 1,930 | | 1,676 | |
| **Net loss[(4)]** | (322) | | (550) | | (1,208) | | (158) | |

(1) Financial statements of Welldone Impex have been consolidated with those of Bharti Cellular.

(2) Kolkata and Chennai circles have been consolidated for the first time in the six months ended September 30, 2001, from July 16, 2001 and September 13, 2001, respectively.

(3) Adjusted EBITDA represents earnings before pre-operating costs, depreciation and amortisation, interest and taxation.

(4) Net loss on a consolidated basis for the respective period.

Our financial statements reflect the changes arising from recent acquisitions and are difficult to compare from one financial year to another due to significant amortisation expense in different financial years. Amortisation expense varied from one financial period to another as the goodwill due to acquisitions increased in the manner set forth below:

- We acquired an effective 32.36% equity interest in Bharti Mobile by acquiring a 63.45% equity interest in SC Cellular for Rs.552 million from the former shareholders of Bharti Mobile (SC Cellular then owned 51% of Bharti Mobile, a cellular service provider in the Karnataka and Andhra Pradesh circles) in the financial year 2000. This transaction resulted in goodwill of Rs.3,706 million.
- We acquired a further effective 41.6% equity interest in Bharti Mobile in the financial year 2001 through SC Cellular for Rs.4,879 million from the former shareholders of Bharti Mobile. As a result, we have a total effective equity interest of 74% in Bharti Mobile. This transaction resulted in additional goodwill of Rs.7,138 million.
- We acquired a 30.2% equity interest in Bharti Telenet (a cellular service provider in the Himachal Pradesh circle and a fixed-line service provider in the Madhya Pradesh circle) for Rs.973 million from STET and an 18.8% equity interest from Bharti Telecom. As a result, we made Bharti Telenet our 100% subsidiary in the financial year 2001. The acquisition from STET resulted in additional goodwill of Rs.512 million.

- We acquired a 2% equity interest in Bharti Cellular (a cellular service provider in the Delhi circle) for Rs.371 million and an additional 3% equity interest for Rs.626 million in the financial year 2001 from former shareholders of Bharti Cellular. The acquisitions resulted in aggregate additional goodwill of Rs.945 million.
- We acquired a 40.5% equity interest in Bharti Mobinet, formerly SkyCell Communications Limited (a cellular service provider in the Chennai circle) for Rs.1,246 million from Crompton Greaves Limited, in the financial year 2001. Since we had not acquired management control of Bharti Mobinet as of March 31, 2001, we had not consolidated the results of operations of Bharti Mobinet and our investment in Bharti Mobinet had been accounted for under the equity method of accounting in accordance with IAS. We acquired an additional 49% equity interest in Bharti Mobinet from Bellsouth and Millicom for a total of Rs.1,998 million, and have consolidated the results of operations of Bharti Mobinet from September 13, 2001.

  These acquisitions resulted in additional goodwill of Rs.4,394 million, as of September 30, 2001.
- In May 2001, we acquired a beneficial 85% equity interest in Bharti Telespatial from Bharti Telecom through an equity issue and cash transaction. This acquisition has been accounted for retrospectively on a 'Uniting of Interest Method' basis in our consolidated financial statements for the financial years 1999, 2000 and 2001. We acquired the beneficial interest in the remaining 15% of Bharti Telespatial equity on June 1, 2001 from a minority shareholder for Rs.274 million, which resulted in goodwill of Rs.299 million.
- In March 2001, Bharti Telespatial acquired management control of Bharti BT Internet, when it acquired an additional 9.22% equity interest in Bharti BT Internet by subscribing to rights renounced by British Telecom. In May 2001, British Telecom transferred its 39.78% equity interest in Bharti BT Internet to Bharti Telespatial for Rs.342 million and in June 2001, transferred its 49% equity interest in Bharti BT to Bharti Telespatial for Rs.316 million, giving Bharti Telespatial a 100% equity interest in each company. These acquisitions resulted in goodwill of Rs.472 million.
- In July 2001, we acquired management control and a 100% beneficial equity interest in Bharti Mobitel from Spice Telecom Limited, a cellular service operator in the metropolitan area of Kolkata, for Rs.3,145 million and the legal ownership in Bharti Mobitel in September 2001. This acquisition resulted in goodwill of Rs.3,602 million.
- In September 2001, we acquired the beneficial equity interest in and legal ownership of the remaining 44% equity interest in Bharti Cellular from British Telecom for Rs.7,794 million, making Bharti Cellular our 100% subsidiary. This transaction resulted in goodwill of Rs.7,018 million.
- In October 2001, we acquired the beneficial equity interest in and legal ownership of the remaining 10% equity of Bharti Telesonic from SingTel for Rs.274 million, thereby making Bharti Telesonic our 100% subsidiary. This transaction resulted in goodwill of Rs.36 million *(based on unaudited numbers*).

  For further details on these acquisitions, see note 3 to our consolidated financial statements prepared in accordance with IAS.

***New cellular circles***

In September 2001, our 100% subsidiary Bharti Cellular entered into license agreements to establish networks and provide cellular services in eight additional circles comprising the metropolitan region of Mumbai and the circles of Maharashtra, Gujarat, Tamil Nadu, Kerala, Madhya Pradesh, Uttar Pradesh (West), and Haryana. The following table sets forth the entry fees paid and bank guarantees issued for each of the eight circles :

| Circle | Entry fees | | Bank Guarantees(1) | |
|---|---|---|---|---|
| | (in millions) | | | |
| Mumbai | Rs.2,037 | $42.53 | Rs.700 | $14.61 |
| Maharashtra | 1,890 | 39.46 | 700 | 14.61 |
| Gujarat | 1,090 | 22.76 | 700 | 14.61 |
| Tamil Nadu | 790 | 16.49 | 700 | 14.61 |
| Kerala | 405 | 8.46 | 350 | 7.31 |
| Haryana | 215 | 4.49 | 350 | 7.31 |
| Uttar Pradesh (West) | 305 | 6.37 | 350 | 7.31 |
| Madhya Pradesh | 175 | 3.65 | 350 | 7.31 |
| **Total** | **6,907** | **144.20** | **4,200** | **87.68** |

(1) Includes both performance and financial bank guarantees

In September 2001, we paid Rs.4,910 million (US$102.5 million) to the DoT pursuant to the September 19, 2001 restoration offer for the Punjab license. We have also provided bank guarantees aggregating Rs.450 million (US$9.39 million). The payment of Rs.4,910 million has been made subject to determination of the final liability by the arbitrator. We believe, based upon legal advice, that the final liability will not exceed Rs.800 million (US$16.7 million) and have provided for Rs.800 million in our financial statements for the financial year 2000 since we acquired management control of Bharti Mobile in November 1999. We consider the additional payment of Rs.4,110 million recoverable from DoT and have not made any provision for additional amounts in our financial statements. The final accounting treatment of the Rs.4,910 million payment will be determined subsequent to the decision of the arbitrator. We may also be subject to claims from Essar with respect to the Punjab circle. For further details, see "Outstanding Litigations and Material Developments".

***Share issuances***

During the period from April 1, 2001 to September 30, 2001, we made the following significant share issuances:

- Issuance of 45,404,037 equity shares at an average price of Rs.533 per share, aggregating approximately Rs.23.4 billion.
- Issuance of 1,516,390,970 equity shares on September 30, 2001 by way of bonus in the ratio of ten equity shares for every equity share.

***Share options to employees***

In April 2001, we implemented our employee stock option scheme and issued letters to employees specifying their options to purchase equity shares under the scheme. To implement the scheme, we have set up an employee welfare trust to which the equity shares have been issued. Employees will purchase the equity shares from the trust at a discount of 50% to the Issue Price of the equity shares being issued pursuant to this red herring prospectus. The total value of the options/ shares has been determined at the time of the grant, while the number of shares to be issued to employees will be determined on the Issue Price. The options would vest with the employees over a period of 42 months to 48 months from the date of grant. As of September 20, 2001, we had made an aggregate grant of Rs.558 million of the value of shares to 1,126 employees.

In addition, Mr. Akhil Gupta, our Joint Managing Director, will be entitled to purchase 80,000 equity shares at face value of Rs.10 each (these shares are entitled to any bonuses, including 800,000 equity shares under the recent one for ten bonus issue), in accordance with the scheme. For further details, see "Our Management".

Under unconsolidated Indian Accounting Standards, the difference between the price at which shares have been acquired by the Trust and exercise price will be treated as an employee compensation expense and will be amortised on a straight-line basis over the vesting period from the date of grant by Bharti Tele-Ventures with respect to its employees.

Similarly, for the employees of the subsidiaries of Bharti Tele-Ventures, the difference between the price at which shares have been acquired by the Trust and the exercise price will be accounted as an employee compensation expense and will be amortised on a straight-line basis over the vesting period from the date of grant, in the financial statements prepared by the relevant subsidiaries of Bharti Tele-Ventures.

Under consolidated IAS, the difference between the price at which shares have been acquired by the Trust and the exercise price will be treated as an employee compensation expense and will be amortised on a straight-line basis over the vesting period from the date of grant, in the financial statements prepared by Bharti Tele-Ventures with respect to the employees of Bharti Tele-Ventures and its subsidiaries.

To purchase the equity shares, the trust has received loans from Bharti Tele-Ventures and its subsidiaries, whose employees are entitled to options. The difference between the price at which shares have been acquired by the Trust and the excercise price will be treated as an employee compensation expense and will be amortised on a straight-line basis over the vesting period from the date of grant, by Bharti Tele-Ventures with respect to its employees of Bharti Tele-Ventures.

***Significant developments subsequent to September 30, 2001***

***Fixed-line services***

In October 2001, our 100% subsidiary Bharti Telenet entered into license agreements with the DoT to establish networks and provide fixed-line services in four new circles comprising Delhi, Haryana, Tamil Nadu and Karnataka. The following table sets forth the license fees paid and bank guarantees issued for each of the four circles.

| **Circle** | **Entry fees** | | **Bank Guarantees**(1) | |
|---|---|---|---|---|
| | **(in millions)** | | | |
| Delhi | Rs.500 | $10.44 | Rs.2,000 | $41.75 |
| Haryana | 100 | 2.09 | 400 | 8.35 |
| Tamil Nadu | 500 | 10.44 | 2,000 | 41.75 |
| Karnataka | 350 | 7.31 | 1,400 | 29.23 |
| **Total** | **1,450** | **30.27** | **5,800** | **121.09** |

(1) Includes both performance and financial bank guarantees.

*Long distance services*

In December 2001, Bharti Telesonic entered into a license agreement with the DoT to provide national long distance services for which we paid a one-time entry fee of Rs.1 billion (US$21 million), and provided aggregate bank guarantees of Rs.4 billion (US$84 million).

***Factors that may affect results of our operations***

Our future results of operations could potentially be affected by the following factors:

- Our ability to successfully implement, develop and integrate additional cellular and fixed-line licenses and provide national long distance and broadband services, which are new business areas. Our future performance will depend on our ability to develop the necessary management structure, raise adequate resources, roll-out our networks in time and compete effectively in these new areas;
- Changes in macro economic conditions in India. While the Indian economy has experienced real GDP growth in recent years, the recent global economic slowdown and other world developments may have an adverse impact on India's economic condition and in turn adversely impact the telecommunications industry;
- Changes in Government regulation, including regulation with respect to license fees, terms of interconnection, roll-out obligations and tariffs;
- Changes in technology and the introduction of competing technologies such as limited mobility using WLL; and
- Introduction of a calling party pays regime.

**Cellular Segment**

The following table sets forth the performance of our cellular segment in the financial years 1999, 2000 and 2001 and the six months ended September 30, 2001, as consolidated under IAS :

| | Financial year ended March 31, | | | | | | Six months ended September 30, 2001 | |
|---|---|---|---|---|---|---|---|---|
| | 1999 | | 2000 | | 2001 | | | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| | (in millions, except percentage data[3]) | | | | | | | |
| **Revenue :** | | | | | | | | |
| Service revenue | Rs.2,195 | 93.3% | Rs.3,837 | 96.5% | Rs.7,370 | 99.7% | 5,302 | 99.6% |
| Airtime charges | 1,210 | 51.4 | 1,769 | 44.5 | 2,909 | 39.4 | 2,065 | 38.8 |
| Access charges | 376 | 16.0 | 696 | 17.5 | 1,277 | 17.3 | 1,004 | 18.9 |
| Fixed monthly subscription | 314 | 13.4 | 695 | 17.5 | 1,712 | 23.2 | 1,065 | 20.0 |
| Other services (including activation roaming and VAS services) | 294 | 12.5 | 676 | 17.0 | 1,471 | 19.8 | 1,168 | 21.9 |
| Equipment sales | 157 | 6.7 | 138 | 3.5 | 19 | 0.3 | 19 | 0.4 |
| **Total revenues** | **2,352** | **100.0** | **3,975** | **100.0** | **7,389** | **100.0** | **5,321** | **100.0** |
| Proforma revenues [1] | 1,794 | 3,175 | 6,140 | 4,350 | | | | |
| **Operating expenses :** | | | | | | | | |
| Access and interconnection costs | 401 | 17.0% | 662 | 16.7% | 1,230 | 16.6% | 952 | 17.9% |
| Network operation costs | 235 | 10.0 | 432 | 10.9 | 812 | 11.0 | 458 | 8.6 |
| Equipment costs | 134 | 5.7 | 122 | 3.1 | 18 | 0.2 | 11 | 0.2 |
| Employee costs | 109 | 4.6 | 212 | 5.3 | 442 | 6.0 | 319 | 6.0 |
| Other operating costs | 493 | 21.0 | 708 | 17.8 | 1,826 | 24.7 | 1,064 | 20.0 |
| Refunds to subscribers | - | | - | | 228 | 3.1 | 1 | - |
| Operating expenses (without license fees and pre-operating costs) | 1,372 | 58.3 | 2,135 | 53.7 | 4,557 | 61.7 | 2,805 | 52.7 |
| License fees | 509 | 21.6 | 706 | 17.8 | 848 | 11.5 | 606 | 11.4 |
| **Adjusted EBITDA [2].** | **471** | **20.0** | **1,134** | **28.5** | **1,984** | **26.9** | **1,910** | **35.9** |
| Finance cost, net | 298 | 538 | 491 | 336 | | | | |
| Depreciation and amortization | 302 | | 641 | | 1,089 | | 524 | |
| Share of loss of joint venture and/or associate | - | | - | | (110) | | - | |
| Adjusted EBITDA margin (on total revenues) | 20.0% | | 28.5% | | 26.9% | | 35.9% | |
| Adjusted EBITDA margin (on proforma revenues)[1]. | 26.3% | | 35.7% | | 32.3% | | 43.9% | |

(1) Proforma revenues are calculated as service revenues less access and interconnection costs and are un-audited. Service revenues exclude revenues from equipment sales. We believe that proforma revenues, calculated in this manner, are more representative of our revenue stream, as a significant portion of the access and interconnection costs, which we collect from our customers for interconnecting with the fixed-line network, are passed on to MTNL or BSNL in accordance with our interconnection arrangements. Until January 25, 2001, we passed on the entire charges collected from our customers, while subsequently, we have been passing on 95% of call charges collected from our customers, in accordance with a notification issued by the DoT. Any change in the interconnection arrangements could have an impact on the proforma revenues and may result in us calculating adjusted EBITDA margins only on the basis of total revenues, which includes access charges and revenue from equipment sales, if any.

(2) Adjusted EBITDA represents earnings before depreciation, pre-operating costs, amortization, interest and taxation.

(3) Percentage data is calculated as percentage of total revenues.

*Revenue:*

Revenue from our cellular segment consists of service revenue and equipment sales.

We realize service revenue from airtime charges, access charges, fixed monthly subscription charges and charges for other services (including activation, roaming and other value added services).

We offer distinct tariff structures to our post-paid and pre-paid customers. Typically, our post-paid customers consist mainly of business and professionals with high airtime usage requirement and our pre-paid customers consist mainly of low airtime usage customers. Our airtime charges reflect usage of our network for both outgoing and incoming calls. For our post-paid customers, the charges are calculated based on the tariff plan subscribed to by our customers. We currently offer our customers a standard tariff plan, as prescribed by the TRAI, and other tariff plans, which offer varying monthly subscription charges and airtime charges for outgoing and incoming calls suiting different customer segments. We offer discounts to corporate customers and other groups that we determine qualify for volume discounts and offer customized tariffs for corporate and other institutional customers.

Airtime charges from post-paid customers are net of discounts and service taxes and are recognized as the services are rendered and these customers are billed periodically, every 30 days. Monthly subscription charges, depending on the tariff plans subscribed to by our customers, are billed to the customers in advance. On most of our tariff plans, incoming calls are billed at a rate lower than those for outgoing calls to encourage higher usage by customers. For our pre-paid customers, we offer products with varying validity periods and recharge coupons of different values. Payment for card usage is recovered from pre-paid customers in advance, although we recognise the revenue from pre-paid cards on actual usage. Although we do not charge any security deposit or monthly subscription charges to our pre-paid customers, new customers are charged a one-time activation charge, which substantially covers direct costs, or dealer commissions, to acquire the customer. The excess of activation revenue over direct customer acquisition costs is deferred and is recognized over the estimated period that a customer is expected to stay on the network; this estimate is based on the historic average churn rate on our network and expected future trends.

Recently, the growth in our customer base has been driven largely by the growth in the pre-paid category and we expect this trend to continue. Low entry barriers and financial commitment, longer validity period and wide availability have typically driven growth in the pre-paid category. Although revenue generated from the pre-paid category is lower than that generated by the post-paid category, lower costs associated with managing pre-paid customers contributes overall to our profitability. Further, although we have experienced significantly higher churn in the pre-paid category than in the post-paid category, we do not believe this has had an adverse impact on our earnings since the one-time activation fees that we charge from a new pre-paid customer substantially covers the direct costs related with acquiring that customer. However, there can be no assurance that we will continue to cover our direct costs of acquiring a customer with activation fees.

Tariff reductions have not had any significant effect on the results of our operations. The first round of tariff reductions, which took place with the implementation of NTP 1999 in November 1999, led to an increase in airtime usage and customer base. Although there was an immediate decline in the monthly service revenues due to lower tariffs, an increased usage and higher number of customers offset the decline over a period of time.

In February 2001, we reduced our tariffs in both the pre-paid and post-paid categories by approximately 23% and in July 2001 by approximately 3% for both the categories, in response to competitive pressures. The tariff reduction in Delhi in February 2001 led to an immediate decline in the monthly service revenue, but also lead to an increase in our customer base and usage by customers. However, our monthly revenues increased close to the levels that existed prior to the tariff reduction within six months. The reduction in tariffs also led to a substantial increase in new customer additions, for instance, in January 2001, the month immediately prior to the tariff reduction, our net additions were 10,470, while in the months of February, March, April, May, June, July, August, September, October and November 2001 we added 19,911, 16,241, 6,872, 10,119, 14,101, 18,657, 20,470, 27,094, 17,452 and 21,362 cellular customers, respectively, in our Delhi circle. Of these, approximately 60% to 90% of our monthly net additions to the customer base were in the pre-paid category. The overall proportion of pre-paid customers in our customer base in Delhi increased from approximately 43% as of January 31, 2001 to 55% as of November 30, 2001.

We believe that in the long term a high share of the subscriber market will be favourable for the growth of our business. Due to lower entry barriers associated with pre-paid category, we expect a significant proportion of new customers on our networks to subscribe to pre-paid services initially. Over a period of time, as customers get more used to cellular services, we expect a higher number of pre-paid customers to opt for post-paid services, which would increase usage and generate higher revenues.

We face significant competition from existing and potential new entrants, which could significantly impact the tariffs we charge for our services, our market share and our results of operations.

Access charges represent charges for local, domestic long distance and international calls recovered by us from our customers as a pass through to BSNL or MTNL in accordance with our interconnection agreements with BSNL or MTNL. The revenues and costs associated with access charges are recognized as the services are rendered. Roaming revenues arise primarily from airtime usage of our networks by customers from other cellular networks, known as in-roamers. For in-roamers, our existing roaming charges are Rs.10 per minute for domestic in-roamers and a fixed charge per minute for international in-roamers for their incoming and outgoing calls, in addition to the applicable fixed-line charges. For international in-roamers, we also charge an additional 15% of actual usage for outgoing and incoming calls. From our customers using other networks, known as out-roamers, we charge a fixed monthly charge for domestic and international long distance and 10% of all call charges they incur on other networks. Roaming revenues are recognized as they are incurred.

We offer a variety of value added services to our customers depending on the demand for services, pricing and technical capability of the networks. Typically, we charge a fixed monthly fee for providing value-added services. For short messaging services, or SMS, we charge our customers per message for each outgoing message, while we do not charge any amount for an incoming message. We charge our customers a fixed monthly fee for caller line identification services. Caller line identification and SMS services are our highest revenue generating value-added services.

Equipment sales comprise revenue from sale of cellular handsets to customers. In the initial years of our operations, the high cost of cellular handsets was a major deterrent to cellular usage. In that period, we offset the handset cost with the service cost and offered handsets to new customers at or below cost in order to promote greater cellular usage. However, with declining handset prices and availability of handsets in the unofficial market in India, we started to discontinue selling handsets in the last quarter of the financial year 2000.

We consider average revenue per customer to be an important tool for analyzing our customer profile and devising strategies to increase revenues. We calculate average revenue per customer by taking the total cellular revenues reduced by access and interconnection costs and dividing it by the average number of customers during the period (calculated as the average of the sum of the customers at the beginning of the year and at the end of the period). The result so obtained is divided by the number of months in that period to arrive at the average revenue per customer per month. Typically, average revenue from a post-paid customer is higher than that from a pre-paid customer. This is largely due to a higher usage pattern for a post-paid customer as a result of lower tariffs. In the past, the immediate impact of the tariff reduction has been a decline in the average revenue from a customer; however, an increase in usage and an increase in customer base had offset any decline in revenue over a period. Our average revenue per customer, based on our total customer base, was Rs.1,330, Rs.1,335, Rs.1,249 and Rs.1,035 in the financial years 1999, 2000, 2001 and the six months ended September 30, 2001, respectively. During these periods our customer base increased from approximately 122,000 as of March 31, 1999 to approximately 283,000 as of March 31, 2000, to approximately 595,000 as of

March 31, 2001 and to approximately 983,500 as of September 30, 2001. In calculating the average revenue per customer for the six months ended September 30, 2001, we have not considered the financial performance of our recently acquired Kolkata and Chennai circles.

We bill our post-paid customers on a monthly basis. We provide our customers a 21-day credit from the date of invoice for making the payment. According to our collection policies, if a customer does not pay his or her bills in the given time and after reminders, we assign the collection responsibility to a collection and recovery agency. Subsequently, we disconnect the service to the customer. In our financial statements, we provide for amounts that are due for more than 90 days and that could not be recovered by us from the customers. Subsequently, when we deactivate the customer's number, we write off as a bad debt the entire amount due from the customer, after adjusting the security deposit.

*Operating expenses:*

Our operating expenses include access and interconnection costs, network operation costs, equipment costs, employee costs and other operating costs. We classify license fees paid to the DoT as a separate expense item.

Access and interconnection costs comprise access and interconnection charges, which are payments to BSNL or MTNL for accessing their networks for providing local, domestic long distance and international long distance facilities to our cellular customers. Of these, the highest payments were made for domestic long distance and international long distance calls incurred by our customers. Our interconnection arrangement with BSNL or MTNL are governed by our license agreements with the DoT. For outgoing calls, while we used to pay, 100% of BSNL's or MTNL's charges for calls routed through their networks, since January 25, 2001, we have been permitted to retain 5% of BSNL's or MTNL's charges calls routed through their fixed-line networks. For calls terminating on our network, we are not entitled to receive any portion of MTNL's or BSNL's charges for calls originating on their networks. Access charges are recognized as the services are rendered.

We have recently entered into interconnection arrangements with other private operators in most of our cellular circles. When our customers make a call to a customer on these networks, or vice-versa, within the same circle, there are no access and interconnection charges payable and the customers are billed for only the airtime charges. We also intend to enter into additional interconnection arrangements with other cellular operators and private fixed-line operators in our other networks. As a result of these agreements, our customers will not be required to pay access and interconnection charges for local cellular to cellular calls which could reduce our access and interconnection charges in the future.

Network operation costs comprise rental payments for mobile switching centres, base station controls and base stations, annual maintenance charges for networks, lease line charges, electricity, insurance, royalty and license fees for spectrum usage and other operating expenses incurred for maintaining and operating our cellular network infrastructure. Lease line charges represent payments to MTNL or BSNL for usage of their network for dedicated communication services. Payments are made in advance on an annual basis and are dependent on the distance between the points of connection and the capacity of the lease line. Royalty and license fees for spectrum usage comprise payments made to WPC for usage of frequency spectrum to operate cellular services. These charges are payable in accordance with the WPC's order dated September 27, 2001, at the rate of 2%-3% of AGR, retroactively computed with effect from August 1, 1999.

Equipment costs represents the cost of handsets, which we resell to customers. In the last quarter of the financial year 2000, we started to discontinue the sale of handsets to our customers.

Employee costs include salary payments, contributions to employee benefit funds, allowances, bonuses, retirement benefits including vacation pay, staff welfare and other employee costs for cellular segment employees.

Other operating costs include advertisement expenses, promotional and sponsorship expenses, channel commission costs, bad debt provision and general administrative expenses. Advertisement and promotional expenses include the expenses incurred for brand launches and corporate campaigns and comprised the largest component of our other operating costs in the financial year 2001. For instance, we launched *Bharti - Building Telecom, Building Partnerships* campaign in January 2001, launched *AirTel Touch Tomorrow* campaign in Delhi in August 2000, launched *AirTel* and *Magic* brands in Andhra Pradesh and Karnataka circles during the period April to June 2000. Channel commission costs comprise commission paid to dealers and franchisees for every new customer introduced by them. For post-paid customers, we pay our distributors and franchisees a commission for sale of SIM cards and for meeting quality and quantity targets. For pre-paid customers, the average commission is approximately 15-20% of the amount for each new customer and approximately 7% for the amount for recharging an existing card.

License fees include payments made to the DoT in respect of our cellular networks.

*Accounting treatment of license fee payments for our existing cellular circles*

Under the original terms of our cellular licenses, we were required to pay a fixed annual license fee and subsequently, on a per customer basis. Under the NTP 1999, the DoT allowed the existing operators the option to migrate to a revenue sharing regime with a one-time entry fee equal to the total license fees payable up to July 31, 1999. Effective August 1, 1999, we elected to migrate all of our cellular licenses to a revenue sharing arrangement. Since that date, we have paid license fees at the rate of 15% of gross revenue, determined in accordance with our licensing arrangements with the DoT. We account for the license fees as an expense when incurred. License fees are payable quarterly in advance, with a year-end adjustment for audited gross revenue numbers.

Further, as recommended in the amended license agreements of September 25, 2001, our revenue sharing percentage has been reduced, with retroactive effect from January 26, 2001, to 12% of AGR for our cellular operations in metropolitan and category 'A' circles and to 8% of AGR for our cellular operation in category 'C' circles. For our cellular circles that we have acquired in category 'B', license fees will be payable at 10% of AGR. However, the license agreements specify that if limited mobility services using WLL are not permitted in the future, license fees will be payable at a revised rate of 15% of AGR for all our circles.

*Accounting treatment of license fees payment for new circles acquired by us as fourth operator*

The license fees for our new cellular circles require the payment of a one-time entry fee and the payment of annual license fees on revenue sharing basis.

We have treated the one time entry fees as an intangible asset in our financial statements, valued at the actual payment made by us. In future, accounting years we will value these entry fees at cost less accumulated amortisation and any other accumulated impairment losses. Entry fees will be amortised on a straight line basis over the period of the license from the date of commencement of commercial operations in these circles.

We will charge the annual license fees, calculated on the basis of AGR, in our financial statements in future years.

**Access segment**

The following table sets forth the performance of our access segment for the financial years 1999, 2000 and 2001and six months ended September 30, 2001:

| | Financial year ended March 31, | | | | | | Six months ended September 30, 2001 | |
|---|---|---|---|---|---|---|---|---|
| | 1999 | | 2000 | | 2001 | | | |
| | Amount | Percent | Amount | Percent | Amount | Percent | Amount | Percent |
| | (in millions, except percentage data[4]) | | | | | | | |
| **Revenue :** | | | | | | | | |
| Service revenue | Rs.97 | 100% | Rs.506 | 100% | Rs.1,092 | 100% | Rs 755 | 100% |
| Call revenue | 80 | 82.5 | 403 | 79.6 | 854 | 78.2 | 602 | 79.7 |
| Fixed monthly subscription | 8 | 8.2 | 72 | 14.2 | 167 | 15.3 | 105 | 13.9 |
| Other services (including activation and value added services) | 9 | 9.3 | 31 | 6.2 | 71 | 6.5 | 48 | 6.4 |
| Equipment sales[1] | - | - | - | - | - | | | |
| Total revenues | 97 | 100 | 506 | 100 | 1,092 | 100 | 755 | 100 |
| **Operating expenses:** | | | | | | | | |
| Access and interconnection costs | 29 | 29.9% | 125 | 24.7% | 252 | 23.1% | 189 | 25.0 |
| Network operation costs | 14 | 14.4 | 72 | 14.2 | 148 | 13.6 | 80 | 10.6 |
| Equipment costs | - | - | - | - | | | | |
| Employee costs | 86 | 88.7 | 149 | 29.4 | 172 | 15.7 | 100 | 13.2 |
| Other operating costs | 181 | 186.6 | 262 | 51.8 | 271 | 24.8 | 139 | 18.4 |
| Operating expenses (without license fees and pre-operating costs) | 310 | 319.6 | 609 | 120.4 | 843 | 77.2 | 509 | 67.4 |
| License fees | 194 | 200 | 111 | 21.9 | 69 | 6.3 | 66 | 8.7 |
| Adjusted EBITDA[2] [3] | - | - | | | 180 | 16.5% | 181 | 24% |
| Finance cost, net | (87) | | 201 | | 412 | | 185 | |
| Depreciation and amortisation | 83 | | 260 | | 561 | | 307 | |
| Adjusted EBITDA margin (on total revenues)[3] | - | | - | | 16.5% | | 24% | |

(1) Amounts are relatively insignificant.

(2) Adjusted EBITDA represents earnings before depreciation, pre-operating costs, amortization, interest and taxation.

(3) Negative adjusted EBITDA in financial year 1999 and 2000.

(4) Percentage data is calculated as percentage of total revenues.

*Revenue:*

Revenue from our access segment consists mainly of service revenue.

Service revenue comprises call revenue, fixed monthly subscription charges and other charges (including activation charges and charges from value added services). Call revenue is calculated based on the tariff schemes subscribed to by our customers. We currently offer our customers different tariff plans to meet their usage and expenditure requirements. Our tariff plans are designed to attract high revenue generating customers, wherein we offer discounts on higher usage. We bill our access customers on a monthly basis.

We consider average revenue per customer to be an important tool for analyzing our customer profile and devising strategies to increase revenues. We calculate average revenue per customer by taking the total access revenues and dividing it by the average number of customers during the period (calculated as the average of the sum of the customers at the beginning of the period and at the end of the period). The result so obtained is divided by the number of months in that period to arrive at the average revenue per customer per month. Average revenue per customer in the financial year 1999 was high as we targeted high revenue generating corporate customers. Over the years, as we increased our focus towards increasing our customer base, we added a higher number of residential and low revenue generating customers. This has led to a decline in average revenue per customer from Rs.1,587 in the financial year 1999 to Rs.1,070 and to Rs.1,048 in the financial years 2000, 2001, respectively. During this period, our customer base increased from 12,223 customers as of March 31, 1999 to 66,661 and to 107,086 customers as of March 31, 2000 and 2001, respectively. Our customer base as of September 30, 2001 was approximately 128,000 and for the six months ended September 30, 2001, our average revenue per customer per month was Rs.1,072. The increase in usage resulting from an increased customer base led to an increase in revenues which more than offset the discount offered by us. Our strategy in respect of our existing and new circles is to focus on corporate and other high revenue generating customers. We believe that the new circles where we propose to launch fixed-line services have high potential for data transmission services, thereby offering high potential for revenue generation. If we are successful in penetrating these customer markets, we expect that our average revenue per customer will increase in the future.

*Operating expenses:*

Our operating expenses include access and interconnection costs, network operation costs, equipment costs, employee costs and other operating costs. We classify license fees paid to the DoT as a separate expenses item.

Access and interconnection costs include access and interconnection charges which represent payment to BSNL for access and interconnection of their networks for providing local, national and international long distance services to our fixed-line customers. These charges are fixed by the TRAI and are applicable to all the private sector fixed-line operators who interconnect with BSNL. The interconnection agreement with BSNL requires us to make an advance annual payment depending on the number of points of connectivity with BSNL's network and also to share charges generated for outgoing calls. In the case of outgoing calls from our network, we are permitted to retain:

- 60% of revenue for national long distance calls (including inter-state calls and any intra-state calls where the call was originated on our network but not carried exclusively on our network); and
- 45% of revenue for international calls.

We are not required to enter into any interconnection arrangement with respect to intra-circle calls that we carry exclusively on our network. We therefore retain 100% of the revenues from such calls.

Network operation costs comprise rental payments for our network equipment, annual maintenance charges for network, lease-line charges, consumables, electricity, insurance and other operating expenses incurred for maintaining and operating our fixed-line network. Lease line charges represent payments to BSNL for usage of their network for dedicated communication services. Payments are made in advance on an annual basis and are dependent on the distance between the points of connection and the capacity of the lease line.

Employee costs include salary payments, contributions to employee benefit funds, allowances, bonuses, retirement benefits including vacation pay, staff welfare and other employee costs for employees in our access segment.

Other operating costs include marketing and promotion expenses, channel commission costs, bad debt provision and administrative expenses. Our channel commissions consist of fixed payments to the dealer for every new fixed-line customer, which is currently Rs.350 per customer. We also pay an additional performance linked incentive, wherein the rates may increase up to 85% of the base commission, based on the period for which the new customer remains on our network.

*Accounting treatment of license fee payments for our Madhya Pradesh circle*

We account for license fees as an expense when incurred. Under the NTP 1999, the DoT allowed existing operators the option to migrate from a fixed license fee regime to a revenue sharing regime with a one-time entry fee equal to the total license fees payable up to July 31, 1999. Effective August 1, 1999, we chose to migrate our fixed-line license to a revenue sharing arrangement and had paid license fees at the rate of 15% of our gross revenues, determined in accordance with our licensing arrangements with the DoT. In the financial year 2001, we revised the revenue sharing percentage for our fixed-line operations in Madhya Pradesh to 10% of our gross revenues, retroactively from August 1, 1999. These fees are payable quarterly in advance, with a year-end adjustment for audited gross revenue numbers.

*Accounting treatment of license fee payments for new fixed-line circles acquired by us*

The licenses for our new fixed-line circles require the payment of a one-time entry fees and the payment of annual license fees on revenue sharing basis.

We have treated the one time entry fees as an intangible asset in our financial statements, valued at the actual payment made by us. In future accounting years, we will value these entry fees at cost less accumulated amortisation and any other accumulated impairment losses. Entry fees will be amortised on a straight line basis over the period of the license from the date of commencement of commercial operations in these circles.

We will charge the annual license fees, calculated on the basis of AGR, in our financial statements in future years.

**Broadband segment:**

The following table sets forth the performance of our broadband segment for the six months ended September 30, 2001:

| | **Six months ended September 30, 2001** | |
|---|---|---|
| | **Amount** | **Percent** |
| | **(in millions, except percentage data[(2)])** | |
| **Revenue:** | | |
| Broadband revenue | Rs.135 | 79% |
| Equipment revenue | 36 | 21% |
| Total revenue | 171 | 100% |
| **Operating expenses:** | | |
| Access and interconnection costs | - | - |
| Network operation costs | 152 | 88.9% |
| Equipment costs | 40 | 23.4% |
| Employee costs | 59 | 34.5% |
| Other operating costs | 61 | 35.7% |
| Operating expenses (without license fees) | 312 | 182.5% |
| License fees | 9 | - |
| Adjusted EBITDA[(1)]. | (150) | - |
| Finance cost, net | 3 | - |
| Depreciation and amortisation | 58 | - |
| Adjusted EBITDA margin (on total revenues) | - | - |

*(1) Adjusted EBITDA is negative.*

*(2) Percentage data is calculated as percentage of total revenues.*

Revenue from broadband services comprises revenues from VSAT services to our corporate customers and Internet services to our residential and corporate customers. We intend to leverage on our telecommunications expertise and infrastructure and the bandwidth available from our subsidiaries to offer hybrid broadband applications and solutions to key corporate customers.

We also resell VSAT equipment to our customers.

*Operating expenses:*

Our operating expenses include network operation costs, equipment costs, employee costs and other operating costs. We classify license fees paid to the DoT as a separate expenses item.

Network operation costs comprise rental payments for our network equipment, annual maintenance charges for network, consumables, electricity, insurance and other operating expenses incurred for maintaining and operating our broadband services.

Employee costs include salary payments, contributions to employee benefit funds, allowances, bonuses, retirement benefits including vacation pay, staff welfare and other employee costs for employees in our access segment.

Other operating costs include marketing and promotion expenses, bad debt provision, administrative expenses, travel and conveyance, legal and professional costs, utilities, communication expenses, printing and stationery and other miscellaneous expenses.

We account for license fees as an expense when incurred. We pay a fixed amount per VSAT equipment sold or leased by us to our customers.

***Others***

For the financial years 1999 through 2001, our long distance and broadband businesses had not commenced operations although we incurred costs to set up these businesses in those periods. These costs, along with costs that cannot be apportioned to our existing businesses, have been included in other operating costs, for such periods. Our broadband business commenced operations during the six months ended September 30, 2001 and has been classified as a separate business segment.

Once our long distance businesses commences commercial operations, we intend to classify revenues and expenses separately for each of these businesses in accordance with the applicable provisions of IAS.

We have also commenced offering national long distance services by offering data transmission services and intend to offer voice transmission services shortly, subject to receipt of requisite regulatory approvals. We intend to provide voice services to fixed-line customers after the necessary interconnection and technical arrangements have been entered into with BSNL and other private fixed-line operators. We also intend to expand the range of our voice services to provide the latest services and features, such as toll-free phone services, premium rate services (such as a medical help line), and televoting services (which can be used by various agencies to conduct opinion polls or national market research).

We have also entered into an agreement with VSNL, the incumbent international long distance service provider, to carry the national long distance part of the international calls on our network. We believe that lower tariffs for long distance calls as a result of increased competition, improved service quality, growth in technology and businesses on the Internet, including call centres, data centres and software development and an increased usage of leased-line by businesses will contribute to the growth of the national long distance business in India. We expect the cost of fibre, network equipment and promotional and marketing expenses to constitute a significant portion of our costs in the initial years of operations. Over a period, we expect to incur higher costs on maintenance and upkeep of the network and equipment and on purchase of new equipment to provide newer value added services, and on network to increase coverage.

We are constructing a submarine cable landing station in Chennai to access international bandwidth for telecommunications services. This will allow us to access and resell international bandwidth directly to end consumers or to other service providers in India. We expect to incur costs on the construction of the landing station, plant and machinery, equipment and maintenance of the landing station. We intend to enter into transfer pricing agreements between our subsidiaries and affiliate company for revenue and cost sharing for the landing station.

**Accounting treatment of financial expenses, depreciation and amortisation expenses**

We adopt common treasury policies for all our businesses. We set off financial expenses, as incurred, against interest and treasury income from investments in government securities, treasury bills and debt instruments. Our financial expenses include interest on borrowings, interest on debentures and interest on delayed payment of license fees.

We adopt uniform depreciation policies for all our businesses. We depreciate our property, plant and equipment on a straight-line basis over the estimated economic life of the asset. We do not depreciate freehold land. Land acquired on lease is amortised over the period of the lease. Typically, the estimated useful life is twenty years for buildings, ten years for network equipment, three years for computers and software and five years for office equipment and vehicles.

Over the past three years, we have completed several acquisitions that have been accounted for under the purchase method of accounting. A large number of acquisitions have been of other Indian cellular operators. A large number of these cellular projects had become unviable in their initial years of operations due to high entry barriers, high license fees and high capital expenditure requirements and were accordingly, saddled with high debt burdens. The high debts and other liabilities, which were not represented by tangible assets, contributed to an increase in the goodwill recorded in our consolidated financial statements.

As a result, our financial statements reflect a substantial amount of amortisation expense attributable to the amortisation of goodwill. In most cases, we are amortising this goodwill over a period of 20 years from the month of acquisition of beneficial equity interest.

***Income tax***

The applicable statutory marginal rate of tax since financial year 2001 has been 35.7%. The statutory marginal rate of tax applicable to our operating subsidiaries was 38.5% in the financial year 2000 and 35% in the financial year 1999. For each of the past periods, our operating subsidiaries have incurred net losses, which can be carried forward and set off against profits made in future periods. As a result of this, we have recorded deferred tax income and created corresponding assets in each of the historic periods. We have also recorded deferred taxes due to temporary differences in expense recognition, primarily on account of treatment of license fees and depreciation for Indian tax purposes.

Currently, the Government of India allows telecommunications services companies to take advantage of a tax holiday for five years and a reduced tax rate equivalent to 30% of the prevailing rate for another five years. These benefits can be claimed for any 10 year period during the first 15 years of operation, provided that there are profits available, after setting off previous years' brought forward losses, in the first year in which the tax holiday is sought. We have started taking advantage of this tax holiday with effect from the financial year 2001 for our Delhi cellular network. For our other cellular networks and our access, long distance and broadband businesses, we intend to defer the tax holiday to a later date, when these operations become profitable. As a result of these benefits, we expect our effective tax rate to be significantly lower than the marginal tax rate for the foreseeable future.

**Results of operations**

**Six months ended September 30, 2001**

Set forth below are our consolidated financial results for the six month period ended September 30, 2001. The interim financial information set forth below is unaudited and has been prepared in accordance with IAS. This information is not comparable with our financial performance in the financial years 1999, 2000 and 2001 and is not necessarily indicative of our results expected for the full financial year.

***Revenues***

*Service revenue.* Our service revenue were Rs.6,192 million in the six months ended September 30, 2001. Cellular and access segments contributed approximately 86% and 12% of our service revenues, respectively, with the balance contributed by our broadband segment.

*Cellular services.* During this period, we have consolidated revenues from Delhi, Andhra Pradesh, Karnataka and Himachal Pradesh operations for six months and revenues from Kolkata and Chennai operations for a period of 2.5 months and 17 days, respectively.

Revenue from airtime usage was Rs.2,065 million in this period. During this period, there were significant additions to our pre-paid customer base, however, the airtime usage was higher in case of post-paid customers. The total number of cellular customers on all our networks were 983,481, as of September 30, 2001.

As of September 30, 2001, approximately 49% of our customer base in Delhi consisted of post-paid customers, compared to approximately 55% as of March 31, 2001. These customers contributed approximately 77.2% of our cellular service revenues from the Delhi circle during the six months ended September 30, 2001.

In our Andhra Pradesh and Karnataka circles, we had 178,643 and 172,138 customers, respectively, as of September 30, 2001, compared to 91,077 and 108,052 customers, respectively, as of March 31, 2001. We added a higher number of pre-paid customers to our customer base during this period. As of September 30, 2001, our pre-paid customer base in our Karnataka and Andhra Pradesh circles comprised approximately 45% and 67% of our total customer base in these respective circles.

In our Kolkata circle, pre-paid customers constituted approximately 65% of our total customer base at the time of acquisition of the circle. As of September 30, 2001 and November 30, 2001, pre-paid customers constituted 62% and 60%, respectively, of our total customer base.

Revenue from access charges for calls carried by MTNL or BSNL were Rs.1,004 million in the six months ended September 30, 2001. Revenue from fixed monthly subscription charges were Rs.1,065 million in the six months ended September 30, 2001.

Post-paid customer represented approximately 44% of our total customer base in the six months ended September 30, 2001 and contributed approximately 70% of our cellular services revenue during this period.

Revenues from other services were Rs.1,168 million during the six months ended September 30, 2001. During this period, a greater number of post-paid customers across, all our networks, subscribed to our value added services. Revenues from roaming services increased as a higher number of our customers opted for roaming services during this period. During the six months ended September 30, 2001, 17% of our customers in the Delhi circle had opted for roaming services.

*Access services.* Our revenue from access services were Rs.755 million in the six months ended September 30, 2001, of which call revenues were Rs.602 million. Our average revenuer per customer per month during this period was Rs.1,072.

*Broadband services.* Our revenues from broadband services were Rs.171 million, comprising revenue of approximately Rs.85 million from VSAT services and the balance from Internet services.

*Equipment sales.* Equipment sales comprise sales of VSAT equipment and cellular handsets to our customers. VSAT equipment sales, amounting to Rs.36 million, comprised a significant portion of our total equipment sales.

***Operating expenses:***

Operating expenses, excluding license fees and pre-operating costs, were Rs.3,891 million in the six months ended September 30, 2001, of which the cellular segment's expenses were Rs.2,806 million and the access segment's expenses were Rs.509 million.

The operating expenses in our cellular, access, long distance, broadband and other segments is set forth below:

*Cellular services.* The total cellular operating expenses, excluding license fees, were Rs.2,806 million in the six months ended September 30, 2001. Access and interconnection costs, network operation costs, employee costs and other costs contributed a significant portion of our operating expenses, excluding license fees.

Access and interconnection costs were Rs.952 million, primarily a function of the customer base and usage. Network operation costs were Rs.458 million on account of annual maintenance charges, rent of premises, electricity, consumables and other expenses.

Employee costs were Rs.319 million during this period. The acquisition of the Kolkata circle in July 2001, added approximately 140 employees to our payroll. We further added approximately 250 employees to our different cellular networks across the country.

Other costs during this period were Rs.1,064 million. Advertisement costs and channel commission costs constituted a significant proportion of the other costs. Advertisement costs represented costs in connection with promoting our services on media, newspaper and other medium, across our networks. Channel commission costs, representing payments to distributors and franchisees, increased with an increase in subscriber base.

Equipment costs were Rs.11 million during this period, on account of cellular handsets purchased for resale to our customers. This practice was largely carried out in our newly acquired Kolkata and Chennai circles.

License fees paid for our cellular segment was Rs.606 million in the six months ended September 30, 2001 and were commensurate with the growth in revenues from cellular services during this period.

*Access services.* The total access operating expenses, excluding license fees and pre-operating costs, were Rs.509 million in the six months ended September 30, 2001 and comprised largely of access and interconnection costs, employee costs and other operating costs.

Access and interconnection costs were Rs.189 million during this period, primarily a function of the customer base and usage.

Employee costs during this period were Rs.100 million. We hired additional 30 employees for our access segment during this period.

Other operating costs were Rs.139 million during this period, commensurate with the growth of our operations.

License fees paid for the access segment during this period was Rs.66 million, commensurate with the growth in our operations.

*Broadband services:*

The total broadband operating expenses, excluding license fees, were Rs.312 million in the six months ended September 30, 2001 and comprised largely of network operation costs, employee costs and other operating costs.

Network operation costs were Rs.152 million, comprising rent, consumables, electricity and repairs and maintenance charges in connection with our broadband operations.

Employee costs during this period were Rs.59 million. We hired approximately 35 employees for our broadband segment. Other operating costs were Rs.61 million during this period, comprising largely of advertisement and promotional expenditure to promote the launch of our services.

License fees paid for the broadband segment during this period was Rs.9 million.

*Others.* During the six months ended September 30, 2001, we incurred expenses in connection with our long distance business, landing station and corporate purposes. These expenses have been included in the others segment for this period.

The changes in our operating expenses represented by various expense categories on a combined basis for all our segments are set forth below:

*Access and interconnection costs:* Access and interconnection costs during this period were Rs.1,141 million, primarily a function of customer base and usage.

*Network operation costs:* Network operation costs during this period were Rs.691 million. Royalty and license fees for spectrum usage, maintenance charges, lease line charges and rent were the primary constituents of network operation costs. Maintenance expenditure on the recently acquired Kolkata circle, was a significant portion of the network maintenance costs. We incurred significant lease line charges in our Andhra Pradesh and Karnataka circles during this period. Further, we incurred approximately Rs.152 million of network operation costs for our broadband business, which has been included in the above.

*Equipment costs:* Equipment costs during this period were Rs.52 million, primarily due to purchases of cellular handsets and VSAT equipment resale purposes.

*Employee costs:* Employee costs during this period were Rs.575 million. During the six months ended September 30, 2001, we hired approximately 465 employees comprising approximately 250 employees for the cellular segment, 30 employees for the access segment, 150 employees for long distance segment and 35 employees for the broadband segment.

*Other operating costs:* Other operating during this period were Rs.1,432 million. Advertisement costs, channel commission costs and allowance for bad and doubtful debts constituted a significant proportion of the other operating costs.

*License fees:* Total license fees paid during this period was Rs.681 million, commensurate with the growth in revenues from cellular and access segments during this period.

***Adjusted EBITDA***

As a result of the foregoing factors, adjusted EBITDA was Rs.1,676 million during this period. Adjusted EBITDA of Rs.1,910 million from the cellular segment, contributed significantly to the overall adjusted EBITDA.

***Other items***

*Depreciation and amortisation:* Depreciation and amortisation expense during this period was Rs.1,197 million. The largest portion was attributable to the depreciation charge on the network equipment.

During this period, we installed an additional 224 base stations, three BSCs and two MSC in our cellular networks.

Amortisation charge during this period was Rs.308 million, net of adjustment for recognition of deferred tax asset. During this period, the acquisition of Kolkata cellular circle, an increase in equity interest in the Chennai cellular operations and the acquisition of a further 44% equity interest in our Delhi operations, caused significant addition to the goodwill in our consolidated financial statements during this period. The additional goodwill created during this period is being amortised over 20 years.

We acquired Bharti Mobitel, the cellular services provider in Kolkata, in July 2001 to establish our presence in the eastern region of the country. By acquiring a fully operational network, we have managed to roll out our services very quickly and launch our cellular brand *AirTel*. This has put us in a competitive position at the time when the fourth cellular operator is likely to start services shortly. The acquisition of the Kolkata cellular circle is consistent with our strategy to be a cellular services provider in all metropolitan circles in the country.

We acquired an additional 44% equity interest in Bharti Cellular from our former partner, British Telecom, in the month of August 2001, making Bharti Cellular our whollyowned subsidiary. Our new cellular licenses are in the name of Bharti Cellular and we are in the process of consolidating our other cellular operations under Bharti Cellular. By obtaining complete control over Bharti Cellular, we believe that we can implement our business restructuring plans and our long-term growth strategy for all of our cellular operations more effectively.

We acquired an additional 49% equity interest in Bharti Mobinet from the shareholders of Bharti Mobinet in September 2001. This has made Bharti Mobinet our whollyowned subsidiary, giving us management and operational control over its operations. We have recently carried out a successful re-branding of cellular services and launched the *AirTel* and *Magic* brands in Chennai. We believe that the Chennai market offers high potential for growth and with a complete control over operations, we are in a better position to implement our strategy.

*Net finance costs:* Net finance costs during this period were Rs.59 million. Financial income of Rs.694 million was largely offset by interest outflow on short-term borrowings, term-loans and debentures used in our business segments.

For our cellular segment, we incurred approximately Rs.8,900 million in long term and short term debt, during this period. For our access, broadband and long distance segments, we incurred approximately Rs.2,800 million in debt during this period.

*Taxation:* During this period, we recognised the income-tax expense of Rs.156 million as a result of tax expenses on account of goodwill amortisation in case of Bharti Tele-Ventures and a drop in the carry forward of tax losses.

*Minority Interest:* Minority's share in our profits was Rs.183 million during this period. As of September 30, 2001, the total minority interest in our business was Rs.258 million.

***Net loss***

As a result of the foregoing factors, our net losses were Rs.158 million in the six months ended September 30, 2001.

***Adjusted EBITDA margin***

The total adjusted EBITDA margin, on proforma revenues, was 32% in the six months ended September 30, 2001.

The total adjusted EBITDA margin, on total revenues, was 26.8% in the six months ended September 30, 2001.

***Comparison of financial year 2000 with financial year 2001***

For the financial year 2000, the results of Bharti Mobile have been consolidated for a period of four months, against a full year for the financial year 2001. To this extent our financial performance on a consolidated basis may not be comparable for those periods. In the financial year 2000, Bharti Mobile contributed approximately 9% of our total revenues compared to approximately 30% of our total revenues in the financial year 2001. Our Delhi cellular network contributed approximately 79% of our total revenues in the financial year 2000 and 56% of our total revenues in the financial year 2001.

***Revenues***

*Service revenue.* Our service revenue increased to 95% from Rs. 4,343 million in the financial year 2000 to Rs. 8,462 million in financial year 2001. The increase in service revenue was attributable to a 92% increase in cellular service revenue from Rs. 3,837 million in the financial year 2000 to Rs. 7,370 million in the financial year 2001 and a 116% increase in access service revenue from Rs. 506 million in the financial year 2000 to Rs. 1,092 million in the financial year 2001.

*Cellular services.* The increase in cellular service revenue was attributable to increased revenues from the Delhi cellular circle and the consolidation of the cellular service revenues of the Andhra Pradesh and Karnataka circles of Bharti Mobile for the full year in the financial year 2001 compared to four months in the financial year 2000.

Revenue from airtime usage increased 64% from Rs.1,769 million in financial year 2000 to Rs.2,909 million in financial year 2001 due to an increase in the number of customers, including post-paid customers whose airtime usage is typically higher than that of pre-paid customers due to lower airtime charges for post-paid customers. The total number of cellular customers on all our networks increased to 110% from approximately 282,918 as of March 31, 2000 to 595,128 as of March 31, 2001. This growth was due in part to our acquisition of certain circles.

As of March 31, 2001, approximately 55% of our customer base in Delhi consisted of post-paid customers, compared to approximately 57% as of March 31, 2000. These customers contributed approximately 70% of our cellular service revenues from the Delhi circle during the financial year 2001 compared to approximately 71% during the financial year 2000.

In the Delhi circle, the average minutes of usage per customer per month increased from 116 in the financial year 2000 to 153 in the financial year 2001. The average revenue per customer per month declined from Rs.1,627 in the financial year 2000 to Rs.1,266 in the financial year 2001, partly due to our increased penetration among relatively lower revenue generating customer segments and an increase in the pre-paid customer base. During this period, our customer base in Delhi increased to 78% from 184,110 customers as of March 31, 2000 to 328,390 customers as of March 31, 2001.

In our Andhra Pradesh and Karnataka circles, we had 91,077 and 108,052 customers, respectively, as of March 31, 2001, respectively, compared to 46,393 and 47,940 customers as of March 31, 2000, respectively. The increase in customer base has been largely due to an increase in the number of post-paid customers in these circles.

As of March 31, 2000, pre-paid customers on our Karnataka network comprised less than 10% of our total customer base. During the financial year 2001, we experienced increased additions in the pre-paid customer categories, as a result of which our pre-paid customer base comprised approximately 30% of our customer base as of March 31, 2001. In the Karnataka circle, the average minutes of usage per customer per month increased from 343 in the financial year 2000 to 370 in the financial year 2001. The average revenue per customer per month increased from Rs.999 in the financial year 2000 to Rs.1,435 in the financial year 2001. The increase in usage and average revenue per customer was primarily a result of a predominantly post-paid customer base during the financial year 2001.

As of March 31, 2000, pre-paid customers on our Andhra Pradesh network were approximately 20% of our customer base. During the financial year 2001, we experienced significant additions in the pre-paid and post-paid categories and as of March 31, 2001, pre-paid customers comprised approximately 40% of our customer base. In the Andhra Pradesh circle, the average minutes of usage per customer per month increased from 247 in the financial year 2000 to 282 in the financial year 2001 and the average revenue per customer per month increased from Rs.735 in financial year 2000 to Rs.1,017 in financial year 2001, primarily as a result of a predominantly post-paid customer base in the financial year 2001.

In the financial year 2001 post-paid customers across all our networks contributed approximately 75% of our cellular service revenues. However, post-paid customers, as a percentage of our total cellular customer base decreased from approximately 65% as of March 31, 2000 to approximately 59% as of March 31, 2001.

Revenue from access charges for calls carried by MTNL or BSNL increased to 83% from Rs.696 million in the financial year 2000 to Rs.1,277 million in the financial year 2001 due to increased usage by our cellular customers.

Revenue from fixed monthly subscription charges increased 146% from Rs.695 million in the financial year 2000 to Rs.1,712 million in the financial year 2001 due to an 85% increase in the number of post-paid cellular customers across all our networks.

Revenues from other services increased 118% from Rs.676 million in the financial year 2000 to Rs.1,471 million in financial year 2001, primarily due to increased revenue from roaming services and other value added services. Revenues from roaming services increased as a higher number of our customers opted for roaming services during this period; for instance, in the Delhi circle, approximately 20% of our total customers in Delhi opted for roaming services, as of March 31, 2001 compared to approximately 14% as of March 31, 2000. Revenues from value-added services such as caller line identification and SMS also increased during this period.

*Access services.* Our revenues from access services increased to 116% from Rs.506 million in the financial year 2000 to Rs.1,092 million in the financial year 2001 due to a 112% increase in call revenue from Rs.403 million in the financial year 2000 to Rs.854 million in the financial year 2001. Call revenue increased due to a 61% increase in the number of customers from 66,661 as of March 31, 2000 to 107,086 as of March 31, 2001, as we continued to expand our fixed-line operations in the Madhya Pradesh circle and due to increased usage by our high revenue generating customers.

The average revenue per customer per month declined marginally from Rs.1,071 in the financial year 2000 to Rs.1,048 in the financial year 2001. In the financial year 2001, we increased our focus on the high revenue generating customer segment, comprising corporate and commercial users, and devised strategies to increase usage by those customers. Our market share of the commercial segment customers increased rapidly which contributed a larger share to our access revenues. We experienced a high growth in revenues in the public call booth, commercial and residential segments during this period.

*Equipment sales.* Equipment sales of our businesses declined to 86% from Rs.138 million in the financial year 2000 to Rs.20 million in the financial year 2001, as we started to discontinue the sale of handsets in the last quarter of financial year 2000.

***Operating Expenses***

Operating expenses, excluding license fees and pre-operating costs, increased to 101% from Rs.2,808 million in the financial year 2000 to Rs.5,634 million in the financial year 2001. The total increase in operating expenses was primarily attributable to a 113% increase in operating expenses for the cellular segment from Rs.2,135 million in the financial year 2000 to Rs.4,557 million in the financial year 2001 and, to a lesser extent, a 38% increase in operating expenses for the access segment from Rs.609 million in the financial year 2000 to Rs.843 million in the financial year 2001.

The changes in operating expenses in our cellular, access and other segments is set forth below:

*Cellular services.* The increase in cellular operating expenses was primarily due to increases in access and interconnection costs, network operation costs, employee costs and other costs (including refunds to customers) and was partially offset by a decline in equipment costs in such period.

Access and interconnection costs increased 86% from Rs.662 million in the financial year 2000 to Rs.1,230 million in the financial year 2001. This increase resulted primarily from an increase in the customer base and usage.

Network operation costs increased to 88% from Rs.432 million in the financial year 2000 to Rs.812 million in the financial year 2001. This increase resulted primarily from an increase in business operations during this period and the financial year 2001 reflected expenses incurred on the Karnataka and Andhra Pradesh networks for the entire year, as compared to expenses for a period of four months in the financial year 2000. We also accrued for the payment of royalty and license fees for spectrum usage, as per an order issued by the WPC on September 27, 2001. Accordingly, Rs.225 million, payable for financial years 2000 and 2001, has been charged in the financial statements for the financial year 2001, in accordance with IAS.

Employee costs increased to 108% from Rs.212 million in the financial year 2000 to Rs.442 million in the financial year 2001. This increase was a result of the hiring an additional approximately 400 employees for our cellular segment and increase in salary levels.

Other costs increased to 158% from Rs.708 million in the financial year 2000 to Rs.1,826 million in the financial year 2001. This increase was largely due to an increase in the advertisement and promotional expenses as we launched *Bharti - Building Telecom, Building Partnerships* campaign in January 2001, launched *AirTel Touch Tomorrow* campaign in Delhi in August 2000, launched *AirTel* and *Magic* brands in Andhra Pradesh and Karnataka circles during the period April to June 2000. We also refunded approximately Rs.228 million to our customers in the financial year 2001, pursuant to a TRAI refund order.

Equipment costs declined to 85% from Rs.122 million in the financial year 2000 to Rs.18 million in the financial year 2001. This decline was a result of reduced sales of cellular handsets, as we began to discontinue the sale of handsets in the last quarter of financial year 2000.

License fees paid for our cellular segment increased to 20% from Rs.706 million in the financial year 2000 to Rs.848 million in the financial year 2001. This increase was commensurate with the growth in revenues from cellular services during this period. We adjusted the license fees payable for our circles in category A and category C to 12% and 8% of AGR, respectively, with effect from January 26, 2001.

*Access services.* The increase in access operating expenses was primarily due to increases in access and interconnection costs, network operation costs, employee costs and other operating costs.

Access and interconnection costs increased to 102% from Rs.125 million in the financial year 2000 to Rs.252 million in the financial year 2001. This increase resulted primarily from an increase in the customer base and usage.

Network operation costs increased to 106% from Rs.72 million in the financial year 2000 to Rs.148 million in the financial year 2001. This increase was commensurate with the growth of our operations.

Employee costs increased to 15% from Rs.149 million in the financial year 2000 to Rs.172 million in the financial year 2001.

Other operating costs increased marginally from Rs.262 million in the financial year 2000 to Rs.271 million in the financial year 2001. This increase was commensurate with the growth of our operations.

License fees paid for the access segment declined to 38% from Rs.111 million in the financial year 2000 to Rs.69 million in the financial year 2001, since the effect of payment of license fees at a lower rate retroactively from August 1, 1999 was reflected in the financial year 2001, in accordance with IAS.

*Others.* During the financial year 2001, we incurred expenses in connection with our long distance business, corporate purpose and others. These expenses have been included in the others segment for this period.

The changes in our operating expenses represented by various expense categories on a combined basis for all our segments is set forth below:

*Access and interconnection costs:* Access and interconnection costs increased to 88% from Rs.787 million for the financial year 2000 to Rs.1,482 million for the financial year 2001. This increase resulted primarily from an increase in the customer base and usage.

*Network operation costs:* Network operation costs increased to 90% from Rs.504 million for the financial year 2000 to Rs.960 million for the financial year 2001. This increase primarily resulted from increased expenditure on rent, lease line charges, electricity and insurance during the financial year 2001 as we increased network coverage in our various circles and increased expenditure on maintenance and repairs commensurate with the growth in our operations. Lease line charges increased to 309% from Rs.35 million in the financial year 2000 to Rs.143 million in the financial year 2001. This increase was due to increased payments for leasing networks from BSNL in the Andhra Pradesh and Karnataka networks, since we increased our coverage in these circles.

*Equipment costs:* Equipment costs declined by 85% from Rs. 122 million in the financial year 2000 to Rs.18 million in the financial year 2001. This decrease primarily resulted from reduced sales of handsets as we started to discontinue the sale of handsets in the last quarter of financial year 2000.

*Employee costs:* Employee costs increased 82% from Rs. 382 million in the financial year 2000 to Rs.697 million in financial year 2001. This increase was primarily due to hiring of additional employees and an increase in salary levels. During the financial year 2001, we hired approximately 700 employees comprising approximately 400 employees for the cellular segment, over 180 employees for the access segment, 100 employees for long distance business, 20 employees for corporate office and other new business segments.

*Other operating costs:* Other operating costs increased to 122% from Rs.1,013 million in the financial year 2000 to Rs.2,248 million in the financial year 2001. On an overall basis, other operating costs as a percentage of revenue, increased significantly during this period. This increase resulted primarily from an increase in advertisement and promotional expenditure. Other items which increased in other costs included an increase in provision for bad debts, an increase in legal and professional costs during the year 2001 and an increase in channel commission costs, commensurate with the growth of our customer base during this period.

We passed on the benefit of Rs.228 million to our cellular customers in the financial year 2001, as per TRAI's refund order issued to several cellular operators in the country. The benefit was for a period of six months, wherein the refunds corresponded to the reduction in tariffs arising out of reduction in the license fee from fixed license fee to revenue sharing.

*License fees:* Total license fees paid increased to 12% from Rs.817 million for the financial year 2000 to Rs.917 million for financial year 2001. This increase was commensurate with the growth in revenues from cellular and access segments during this period, offset in part by a reduction in the license fees rate for cellular and fixed-line services, adjusted retroactively during the financial year 2001.

***Adjusted EBITDA***

As a result of the foregoing factors, adjusted EBITDA increased to 125% from Rs.856 million in the financial year 2000 to Rs.1,930 million in the financial year 2001, primarily as a result of a 75% increase in adjusted EBITDA of our cellular segment from Rs.1,134 million in the financial year 2000 to Rs.1,984 million in the financial year 2001. An extraordinary accrual of Rs.225 million for payments to WPC for royalty and license fees for spectrum usage for the financial years 2000 and 2001 and an accrual of a Rs.228 million refund to cellular customers as per the TRAI refund order, have been reflected in the financial year 2001 and have had an adverse impact on our financial performance for that year. Our access segment was adjusted EBITDA positive for the first time during the financial year 2001 and it contributed Rs.180 million to the total adjusted EBITDA.

***Other items***

*Depreciation and amortisation:* Depreciation and amortisation expense increased to 83% from Rs.921 million in the financial year 2000 to Rs.1,690 million in the financial year 2001.

Depreciation charge increased to 53% from Rs.854 million in the financial year 2000 to Rs.1,303 million in the financial year 2001. The higher depreciation charge was the result of significant additions to network equipment of Rs.4,875 million in the financial year 2001, which led to a total increase of Rs.5,347 million in assets in the financial year 2001. During the financial year 2001, we installed additional 331 base stations, three BSCs and one MSC in our cellular networks.

Amortisation charge increased to 479% from Rs.67 million in the financial year 2000 to Rs.388 million in the financial year 2001. This was due to increased goodwill of Rs.8,677 million created in the financial year 2001 resulting from the acquisition of an additional 41.6% effective equity interest in Bharti Mobile, the acquisition of a 30.2% equity interest in Bharti Telenet, the acquisition of an additional 5% equity interest in Bharti Cellular and 9.22% equity interest in Bharti BT Internet Ltd. The additional goodwill created during the financial year 2001 is being amortised over 20 years.

The goodwill appearing in our consolidated financial statements for the financial years ended 2000 and 2001 is primarily on account of the acquisitions made by us during these periods. The significant portion of the goodwill was on account of our acquisition of the Andhra Pradesh and Karnataka circles, which were acquired by us in November 1999. At that stage, the fourth round of bidding for cellular circles was not likely in the near future (it took place in July 2001) and the only way for a cellular operator to expand its areas of operations was to acquire existing cellular players.

Acquiring the Andhra Pradesh and Karnataka circles, allowed us to expand our operations from the Delhi and Himachal Pradesh circles to south India. Though the penetration rates achieved by the former cellular operators in these circles were low, they provided an attractive opportunity for growth due to the concentration of companies in the software and technology development industry in these areas. Acquiring existing operations enabled us to roll out our products and services quickly and to carry out re-branding exercises. The contribution of the Andhra Pradesh and Karnataka circles to our consolidated revenues increased from 9% in the financial year ended 2000 to 30% in the financial year ended 2001. Another factor which contributed to the increase in goodwill in the period up to March 31, 2001 was the consolidation of our equity interest in our existing operations in Delhi.

*Net finance costs:* Net finance costs increased to 52% from Rs. 633 million in the financial year 2000 to Rs.959 million in the financial year 2001. Financial income increased 37% during this period from Rs.357 million to Rs.489 million as we deployed the funds contributed by our shareholders in treasury instruments before those funds were utilized in operating activities, which was offset by increased expenses arising from higher short term borrowings, term-loans and debentures used in our cellular and access segment.

For our cellular segment, we incurred approximately Rs.4,200 million and Rs.800 million in long term and short term debt, respectively, in the financial year 2001 compared to Rs.2,800 million and Rs.380 million in the financial year 2000. For our access segment, we incurred approximately Rs.2,750 million in debt in the financial year 2001 compared to Rs.2,000 million in the financial year 2000.

As of March 31, 2001, we had approximately Rs.5,624 million of marketable securities, compared to Rs.2,902 million as of March 31, 2000. The increase was primarily due to surplus cash generated from operations by Bharti Cellular and capital infusion in Bharti Tele-Ventures during the financial year ended 2001, pending deployment for capital expenditure and other business purposes. The investments were short term in nature and we traded regularly in marketable securities, such as government securities, mutual funds, debentures and bonds, during the period to generate financial income.

Income from marketable securities, comprising interest income, increased to 49% from Rs.200 million in the financial year 2000 to Rs.298 million in the financial year 2001. Gain on sale of marketable securities increased to 242% from Rs.31 million to Rs.106 million during the same period. Since the marketable securities were held for short duration and largely for trading purposes, this also improved the liquidity.

Our long term debt increased 1.3% from Rs.7,118 million in the financial year 2000 to Rs.7,210 million in the financial year 2001 while interest on our long term borrowings increased by 73% over the same period. Interest on our long term debt increased by a higher rate than our total long term debt since a significant portion of the long term debt entered into in the financial year 2000 was incurred during the second half of the year, whereas a full year of interest on that debt was reflected in the financial year 2001.

A significant portion of our short term borrowings was attributable to a loan of Rs.767 million from Deutsche Bank on March 31, 2000. This loan was replaced by another short term loan on March 27, 2001. We paid interest on this loan for the entire financial year ended 2001, while no interest was paid in the financial year ended 2000. Accordingly, our overall interest liability increased by 33.43 times during this period, while our short term borrowings remained almost constant.

Interest income represents income from deposits with financial institutions. Interest income declined between the financial years 2000 and 2001 as we changed our treasury policies from investing in deposits to investing in short term marketable securities, which provided higher returns.

Interest from other sources, increased from Rs.6 million in the financial year 2000 to Rs.58 million in the financial year 2001. This comprises interest on unsecured borrowings and inter corporate deposits from companies outside the Bharti Group.

*Taxation:* In the financial year 2001, we recognised income-tax income of Rs.46 million as a result of the losses incurred by us in this period. This resulted in tax asset of Rs.618 million as of March 31, 2001, primarily attributable to losses carried forward to future years.

*Minority Interest:* Minority's share in our profits was Rs.151 million in the financial year 2001 compared to a share of Rs.166 million in our losses in the financial year 2000. The total minority interest in our segment increased from a recoverable of Rs.405 million in the financial year 2000 to a positive share in our assets of Rs.957 million in the financial year 2001.

Minority's share in our profits for the financial year 2001 and an overall positive share in our assets was primarily due to the acquisition of additional equity interests in Bharti Mobile and Bharti Telenet and an increased share of minority in the profits of subsidiaries during the financial year 2001. The payment of a corporate guarantee of Rs.230 million by former shareholders of Bharti Mobile on its behalf was adjusted against the minority interest.

#### *Net loss*

As a result of the foregoing factors, our net losses increased from Rs.550 million in the financial year 2000 to Rs.1,208 million in the financial year 2001.

#### *Adjusted EBITDA margin*

The total adjusted EBITDA margin, on proforma revenues, increased from 23.3% in the financial year 2000 to 26.7% in the financial year 2001.

The total adjusted EBITDA margin, on total revenues, increased from 19.1% in the financial year 2000 to 22.8% in the financial year 2001.

### *Comparison of financial year 1999 with financial year 2000*

#### *Revenues*

*Service revenue.* Our service revenue increased 89% from Rs.2,292 million in the financial year 1999 to Rs.4,343 million in the financial year 2000. The increase in service revenue was attributable to a 75% increase in cellular service revenue, from Rs.2,195 million in the financial year 1999 to Rs.3,837 million in the financial year 2000 and a 422% increase in access service revenue from Rs.97 million in the financial year 1999 to Rs.506 million in the financial year 2000.

*Cellular services*. The increase in cellular service revenue was attributable to increased revenues from the Delhi cellular circle and four months of consolidation of the cellular service revenues of the Andhra Pradesh and Karnataka circles in our financial statements for the financial year 2000. Our Delhi cellular network contributed approximately 95% of our total revenues in the financial year 1999 and 79% of our total revenues in the financial year 2000.

Revenue from airtime usage increased to 46% from Rs.1,210 million in the financial year 1999 to Rs.1,769 million in the financial year 2000. This increase was primarily due to an increase in our customer base and an increase in usage per customer following the introduction of NTP 1999 and, to a lesser extent, due to the consolidation of four month of results from Bharti Mobile.

Under the NTP 1999, we opted to migrate from a fixed license fees regime to a revenue sharing regime. Under the fixed license fees regime for a part of the financial year 1999, we had to pay the Government a fixed amount for each new customer that we acquired. However, with the implementation of the recommendations of NTP 1999, payment of license fees on this basis was discontinued with effect from August 1999. Our customer base in Delhi increased by 55% from 118,833 as of March 31, 1999 to 184,110 as of March 31, 2000.

In addition to the above, our customer base increased due to a reduction in tariffs and an increase in the validity period of the pre-paid card. The factors contributing to an increase in post-paid customer base were the introduction of a variety of tariff plans for customers to match their usage requirements and financial commitment and a reduction of monthly rentals from Rs.600 to Rs.475, effective November 1999.

Increased usage by our customers contributed to the higher airtime charges in the financial year 2000. For the Delhi circle, the average minutes of usage per customer per month increased from approximately 92 in the financial year 1999 to approximately 116 in the financial year 2000. The average revenue per customer per month increased from Rs.1,344 in the financial year 1999 to Rs.1,627 in the financial year 2000, partly due to an increase in the post-paid customer base as a result of a reduction in the airtime rate for the standard tariff package from Rs.6 per minute to Rs.4 per minute effective February 2000.

As of March 31, 2000, approximately 57% of our customer base in Delhi consisted of post-paid customers, compared to approximately 66% as of March 31, 1999. These customers contributed approximately 71% of our cellular service revenues from the Delhi circle during the financial year 2000 compared to approximately 78% during the financial year 1999.

The results of operations of our Andhra Pradesh and Karnataka circles have been consolidated for a period of four months, commencing December 1, 1999. As of March 31, 2000, we had approximately 46,393 and 47,940 customers in the Andhra Pradesh and Karnataka circles, respectively. A large number of these customers were post-paid customers.

In the financial year 2000, post-paid customers across all our networks contributed approximately 75% of our cellular service revenues and comprised approximately 65% of our total cellular customers as of March 31, 2000, compared to 78% of our cellular service revenues in the financial year 1999 and 66% of our total cellular customers as of March 31, 1999.

Revenue from access charges increased 85% from Rs.376 million in the financial year 1999 to Rs.696 million in the financial year 2000, due to an increase in the customer base and usage.

Revenue from fixed monthly subscription charges increased by 121% from Rs.314 million in the financial year 1999 to Rs.695 million in the financial year 2000 due to an increase in the number of post-paid customers across all our networks and the introduction of varied tariff plans to better meet the usage requirements of our customers.

Revenues from other services increased to 130% from Rs.294 million in the financial year 1999 to Rs.676 million in the financial year 2000. This was primarily due to an increase in revenues from roaming services, which increased as we introduced automatic roaming in all our circles, and an increase in revenue from other value added services.

*Access services.* Our revenues from access services increased by 422% from Rs.97 million in the financial year 1999 to Rs.506 million in the financial year 2000 due to a 404% increase in call revenue from Rs.80 million in the financial year 1999 to Rs.403 million in the financial year 2000. The significant increase in call revenue was primarily due to a 448% increase in the number of customers from 12,223 as of March 31, 1999 to 66,661 as of March 31, 2000, as we continued to expand our operations in the Madhya Pradesh circle. Our average revenue per customer per month decreased 33% from Rs.1,587 in the financial year 1999 to Rs.1,071 for the financial year 2000, due to an increase in the customer base, primarily in the residential and other low revenue generating customer segments.

*Equipment sales.* Equipment sales for our businesses declined to 12%, from Rs.157 million for the financial year 1999 to Rs.138 million for the financial year 2000 as we started to discontinue the sale of handsets in the last quarter of the financial year 2000.

***Operating expenses***

Operating expenses, excluding license fees and pre-operating costs, increased to 64% from Rs.1,711 million in the financial year 1999 to Rs.2,808 million in the financial year 2000. The total increase in operating expenses were attributable to a 56% increase in operating expenses for the cellular segment from Rs.1,372 million in the financial year 1999 to Rs. 2,135 million in the financial year 2000 and a 96% increase in operating expenses for the access segment from Rs. 310 million in the financial year 1999 to Rs.609 million in the financial year 2000.

The changes in operating expenses in our cellular, access and other segments is set forth below:

*Cellular services.* The total cellular operating expense, excluding license fees and pre-operating costs, increased to 56% from Rs.1,372 million in the financial year 1999 to Rs.2,135 million in the financial year 2000. The increase was primarily due to increases in access and interconnection costs, network operation costs, employee costs and other operating costs in this period. These increases offset the decline in the equipment costs during this period.

Access and interconnection costs increased to 65% from Rs.401 million in the financial year 1999 to Rs.662 million in the financial year 2000. This increase was a result of an increase in the customer base and higher usage.

Network operation costs increased to 84% from Rs.235 million in the financial year 1999 to Rs.432 million in the financial year 2000. This increase resulted primarily from repairs and maintenance cost for our cellular networks in the Andhra Pradesh and Karnataka circles, which we acquired in the financial year 2000.

Equipment costs declined 9% from Rs.134 million in the financial year 1999 to Rs.122 million in the financial year 2000, due to a decline in the price in the prices of handsets which we sold during this period.

Employee costs increased by 94% from Rs.109 million in the financial year 1999 to Rs. 212 million in the financial year 2000. This increase was a result of the hiring of additional employees for our cellular segment as a result of the acquisition of the Andhra Pradesh and Karnataka circles.

Other operating costs increased to 44% from Rs.493 million in the financial year 1999 to Rs.708 million in the financial year 2000. This increase was largely due to increase in channel commission costs due to an increase in the customer base and other expenses related to the cellular segment, commensurate with the growth of our operations.

Effective August 1, 1999, since we migrated to the revenue sharing basis for paying license fees, we paid license fees at the rate of 15% of service revenue (net of access and interconnection costs paid to MTNL and BSNL). License fees paid for the cellular segment increased to 39% from Rs.509 million in the financial year 1999 to Rs.706 million in the financial year 2000; however, license fees relative to service revenue declined from 23% in the financial year 1999 to 18% in the financial year 2000 since we migrated to a revenue sharing regime under NTP 1999.

*Access services.* The total access operating expenses, excluding license fees and pre-operating costs, increased to 96% from Rs.310 million in the financial year 1999 to Rs.609 million in the financial year 2000. This increase was primarily due to increases in access and interconnection costs, network operation costs, employee costs and other costs.

Access and interconnection costs increased to 331% from Rs.29 million in the financial year 1999 to Rs.125 million in the financial year

2000. This increase was a result of an increase in the customer base and usage.

Network operation costs increased to 414% from Rs.14 million in the financial year 1999 to Rs.72 million in the financial year 2000. This increase was commensurate with the growth of our operations.

Employee costs increased to 73% from Rs.86 million in the financial year 1999 to Rs.149 million in the financial year 2000. This increase was a result of the hiring of an additional 90 employees for our access segment.

Other costs increased to 45% from Rs.181 million in the financial year 1999 to Rs.262 million in the financial year 2000. This increase was commensurate with the growth of our operations.

License fees paid for the access segment declined to 43% from Rs.194 million in the financial year 1999 to Rs.111 million in the financial year 2000; however, license fees as a percentage of service revenue declined from 200% in the financial year 1999 to 22% in the financial year 2000 since we migrated to a revenue sharing regime under NTP 1999 effective August 1, 1999.

*Others:* During the financial year 2000, certain expenses which could not be apportioned to either the cellular or access segments have been included in the others segment.

The changes in our operating expenses represented by various expense categories on a combined basis for all our segments is set forth below:

*Access and interconnection costs:* Access and interconnection costs increased to 83% from Rs.430 million in the financial year 1999 to Rs.787 million in the financial year 2000. This increase was the result of an increase in the customer base and usage.

*Network operation costs:* Network operation costs increased to 112% from Rs.238 million in the financial year 1999 to Rs.504 million in the financial year 2000. This increase primarily resulted from an increase in expenditure of Rs.165 million on annual maintenance charges for network, an increase in rent and electricity, royalty and license fees for spectrum usage commensurate with the growth of our operations and with the acquisition of the Andhra Pradesh and Karnataka circles in the financial year 2000.

*Equipment costs:* Equipment costs declined to 9% from Rs.134 million in the financial year 1999 to Rs.122 million in the financial year 2000, due to a decline in the prices of handsets which we sold during this period.

*Employee costs:* Employee costs increased to 84% from Rs.208 million in the financial year 1999 to Rs.382 million in the financial year 2000, primarily due to the acquisition of the Karnataka and Andhra Pradesh circles which resulted in the addition of approximately 400 employees. We further added approximately 35 employees for our Delhi cellular operations and approximately 90 employees for our access segment. Salary levels increased during this period, in line with the industry trends.

*Other operating costs:* Other operating costs increased to 44% from Rs.701 million in the financial year 1999 to Rs.1,013 million in the financial year 2000. This increase primarily resulted from increased advertisement expenditure and promotion and sponsorship costs since we launched services in new circles and an increase in channel commission costs as a result of an increase in our customer base during this period.

*License fees:* Total license fees paid increased to 16% from Rs.703 million in the financial year 1999 to Rs.817 million in the financial year 2000. However, license fees as a percentage of service revenue for both the cellular and access segments declined during this period as a result of the payment of license fees on a revenue sharing basis in accordance with NTP 1999.

***Adjusted EBITDA***

As a result of the foregoing factors, adjusted EBITDA increased to 2346% from Rs.35 million in the financial year 1999 to Rs.856 million in the financial year 2000, primarily due to a 141% increase in adjusted EBITDA from our cellular segment from Rs.471 million in the financial year 1999 to Rs.1,134 million in the financial year 2000.

***Other items***

*Depreciation and amortisation:* Depreciation and amortisation expense increased to 125% from Rs.409 million in the financial year 1999 to Rs.921 million in the financial year 2000.

Depreciation charge increased to 112% from Rs.403 million in the financial year 1999 to Rs.854 million in financial year 2000. The higher depreciation charge was the result of significant additions to network equipment of Rs.2,834 million in the financial year 2000 as we installed 32 additional base stations in our cellular networks. Depreciation also increased due to assets of Rs. 1,491 million, acquired pursuant to the acquisition of our equity interest in Bharti Mobile. A significant portion of the assets acquired consisted of additional networking equipment of Rs.1,189 million, representing four MSCs, four BSCs and 73 base stations. These resulted in total additional assets of Rs.4,724 million in the financial year 2000 compared to additional assets of Rs.1,524 million in the financial year 1999. We also significantly increased our roll-out of the fixed line network in the Madhya Pradesh circle in the financial year 2000.

Amortisation charge increased 1017% from Rs.6 million in the financial year 1999 to Rs.67 million in the financial year 2000. This was due to increased goodwill of Rs.3,706 million created in the financial year 2000 due to the acquisition of a effective 32.36% equity interest in Bharti Mobile.

*Net finance costs:* Net finance costs increased to 274% from Rs.169 million in the financial year 1999 to Rs.633 million in the financial year 2000. Financial income increased 138% during this period from Rs.150 million to Rs.357 million as a result of high interest income and interest income on securities, which more than offset the increase in expenses arising from interest on term-loans and debentures and interest of Rs.258 million on delayed payment of license fees. For our cellular segment, we incurred approximately Rs.4,800 million in long term debt in the financial year 2000 compared to Rs.2,100 million in the financial year 1999. The debt raised in 2000 was for the expansion of our cellular networks and the acquisition of cellular networks in Andhra Pradesh and Karnataka. For our access segment, we incurred approximately Rs.2,000 in long term debt in the financial year 2000 compared to Rs.1,700 million in the financial year 1999.

*Taxation:* In the financial year 2000, we recognised income-tax income of Rs.80 million as a result of the losses incurred by us in this period. This resulted in tax asset of Rs.491 million, primarily attributable to losses carried forward to future years.

*Minority Interest:* Minority's share in our losses increased from Rs.134 million in the financial year 1999 to Rs.166 million in the financial year 2000.

The total minority interest in our business was a recoverable of Rs.957 million in the financial year 2000, primarily due to the acquisition of a effective 32.36% equity interest in Bharti Mobile by Bharti Tele-Ventures and the subsequent consolidation of the financial results of Bharti Mobile and the payment of a corporate guarantee of Rs.230 million to the DoT by former shareholders of Bharti Mobile on behalf of Bharti Tele-Ventures. This payment to the DoT was subsequently adjusted against minority interest in the financial year 2001.

***Net loss***

As a result of the foregoing factors, our net losses increased from Rs.322 million in the financial year 1999 to Rs.550 million in the financial year 2000.

***Adjusted EBITDA margin***

The overall adjusted EBITDA margin, on proforma revenues, increased from 1.9% in the financial year 1999 to 23.2% in the financial year 2000.

The overall adjusted EBITDA margin, on total revenues, increased from 1.4% in the financial year 1999 to 19.1% in the financial year 2000.

***Liquidity and capital resources***

The following table sets forth our consolidated and summarised cash flows for the financial years ended 1999, 2000, 2001 and six months ended September 30, 2001.

| | For financial year | | | Six months ended September 30, 2001 |
|---|---|---|---|---|
| | 1999 | 2000 (in millions) | 2001 | |
| Cash generated from operations before working capital changes | Rs.173 | Rs.1,009 | Rs.1,618 | Rs.1,248 |
| Net cash provided/ (used) by/ (in) operating activities | 1,059 | (1,905) | 1,190 | (4,116) |
| Net cash provided/(used) by/ in investing activities | (3,656) | (3,599) | (10,866) | (20,455) |
| Net cash provided/(used) by/ in financing activities | 2,594 | 5,528 | 9,860 | 24,823 |
| Net increase/ (decrease) in cash and cash equivalents | (4) | 24 | 184 | 252 |

We have historically relied on a combination of equity infusion by our shareholders, cash generated from operations, short-term and long-term bank and other borrowings and credit from equipment suppliers as a source of funding for our working capital, capital expenditures and other capital requirements.

Our loan agreements for our operating subsidiaries may have certain covenants that restrict the use of cash generated from one operating subsidiary by another. For further details, see “Description of Certain Indebtedness”.

*Period up to financial year 2001*

During the financial year 2000 and 2001, our shareholders invested Rs.3.4 billion and Rs.10.3 billion to further expand our businesses. The outstanding long-term loans, net of current portion, in our financial statements as of March 31, 2000 and March 31, 2001, were Rs.7.1 billion and Rs.7.2 billion respectively. The significant loans outstanding as of March 31, 2000 were non-convertible debentures comprising 14% Rs.2.75 billion from IDFC for our fixed-line operations in Madhya Pradesh and cellular operations in other circles, 15% Rs.1,250 million from IDBI for our fixed-line operations in Madhya Pradesh and 13.5% Rs.1,000 million from IDBI for our cellular operations in Delhi. The significant loans outstanding as of March 31, 2001 were 14% Rs.2,000 million from IDFC for our cellular operations in Andhra Pradesh and Karnataka, 15% Rs.1,250 million from IDBI for our fixed-line operations in Madhya Pradesh, 13.5% Rs.833 million from IDBI and 13.25% Rs.750 million from ANZ Grindlays Bank for our cellular operations in Delhi.

Net cash used in operating activities was Rs.1,905 million in the financial year 2000, while net cash provided by operating activities was Rs.1,190 million in the financial year 2001. This difference was primarily due to a one-time outflow of Rs.3,886 million for license fees in the financial year 2000 as a result of our migration to the revenue sharing license fee regime under NTP 1999.

Net cash used by investing activities was Rs.3,599 million and Rs.10,866 million over the same periods. During the financial year 2000, we invested Rs.336 million to acquire a 32.36% effective equity interest in Bharti Mobile and Rs.3,437 million in capital expenditure towards purchase of property, plant and equipment. During the financial year 2001, we invested Rs.1,298 million to acquire a 40.5% equity interest in Bharti Mobinet, Rs.1,970 million to increase our investments in Bharti Mobile, Bharti Cellular and Bharti Telenet and Rs.4,868 million in capital expenditure towards the purchase of property, plant and equipment. We have utilised surplus cash generated from operations and the equity infusion by our shareholders to repay long term debt of Rs.2,250 million in the financial year 2001 and to invest in marketable securities such as bonds, mutual funds and other treasury instruments, based on our investment policy of safety, liquidity and yield.

As of March 31, 2001, our marketable securities and cash and cash equivalents were Rs.5,624 million and Rs.374 million compared to Rs.2,902 million and Rs.190 million as of March 31, 2000. As of March 31, 2001, net accounts receivable were Rs.1,042 million compared to Rs.612 million as of March 31, 2000. A significant portion of the accounts receivable were in our cellular business. The increase in accounts receivable was primarily a result of increased sales of our services.

***Six months ended September 30, 2001***

During the six months ended September 30, 2001, our shareholders invested Rs.23 billion to further expand our businesses. The outstanding long-term loans, net of current portion, in our financial statements as of September 30, 2001, were Rs.9.9 billion, out of which we raised approximately Rs.2.34 billion during the six months ended September 30, 2001. The significant loans outstanding as of September 30, 2001 were 14% Rs.2,000 million from IDFC for our cellular operations in Andhra Pradesh and Karnataka, 15% Rs.1,250 million from IDBI for our fixed-line operations in Madhya Pradesh, 13.5% Rs.667 million from IDBI for our fixed-line operations, 13.25% Rs.750 million from ANZ Grindlays Bank for our cellular operations in Delhi and over Rs.2,000 million from corporates and FIs to meet the funding requirement of our businesses.

Net cash used in operating activities was Rs.4,116 million in the six months ended September 30, 2001. This was largely due to a cash outflow of Rs.4,910 million in September 2001 paid to DoT for restoring our Punjab license. Out of this, we consider a payment of Rs.4,110 million recoverable from the DoT, which would improve our cash flow from operating activities in future periods.

Net cash used by investing activities was Rs.20,455 million during the six months ended September 30, 2001. License fees paid for acquiring cellular services license from the DoT, the acquisition of 100% equity interest in Bharti Mobitel and the further increase in our shareholding in Bharti Mobinet, were significant investing activities undertaken by us during this period. We have also traded in marketable securities such as bonds, mutual funds and other treasury instruments, based on our investment policy of safety, liquidity and yield.

As of September 30, 2001, our marketable securities and cash and cash equivalents were Rs.1,890 million and Rs.626 million, respectively. As of September 30, 2001, net accounts receivable were Rs.1,427 million, of which a significant portion was in our cellular business.

**Capital expenditure**

We expect to invest an aggregate amount of approximately Rs.47.5 billion until period ended March 31, 2003, comprising Rs.21 billion for our cellular business, Rs.8.2 billion for access business, Rs.11.5 billion for our long distance business and Rs.750 million for general corporate purposes, including for our broadband business. Our actual future capital expenditures may differ from the amounts indicated here.

Proposed investments (including investments that have already been incurred) relating to our cellular business mainly comprise one-time entry fees for new projects, network expansion of our existing circles and development of networks in new circles for which we have been awarded licenses in September 2001. Proposed investments (including investments that have already been incurred) relating to our access business mainly comprise payment of one-time entry fees and development of fixed-line networks in our four new circles and expansion of our network in Madhya Pradesh circle. Proposed investments (including investments that have already been incurred) relating to our long distance business mainly comprise a one-time entry fee and the planned construction of a fiber optic network.

Of the total proposed investments, we have incurred expenditure amounting to Rs.18.9 billion including capital expenditure up to November 30, 2001, payments for entry fees for eight cellular circles and to restore the Punjab cellular circle and for entry fees for four fixed-line circles and national long distance services. We believe that our existing cash resources, along with the proceeds of this offering and available bank borrowings and other sources of external financing would be sufficient to satisfy our estimated working capital and capital expenditure requirements in the next 12 months. Because our liquidity and capital requirements are affected by many factors, some of which are beyond our control, including economic conditions in India, customer demand, regulatory developments, availability of financing and the sectors that we target for our services, our estimate of fund requirement may change. If we require additional funds to support our working capital or capital requirements, we may seek to raise such additional funds through public or private financing or other sources.

Our ability to raise funds through the sale of equity is limited by foreign ownership restrictions imposed on us by Indian law and the terms of our cellular and fixed-line licenses. These restrictions provide that the maximum foreign equity investment in companies in the telecommunications sector is 49%. For further details, see “Issue Procedure - Restrictions on Foreign Ownership of Indian Securities”. If additional funds are raised through the issuance of equity or convertible debt securities, the percentage ownership of our shareholders will be reduced and these securities may have rights, preferences or privileges senior to those of our existing shareholders. We cannot assure you that additional financing will be available on terms favourable to us, or at all.

**Foreign exchange risk**

A substantial portion of telecom network equipment supplies is denominated in U.S. dollars and other foreign currencies. Much of the equipment purchased by us is acquired on deferred payment terms. We realise a foreign exchange loss or gain in respect of these amounts to the extent that the value of the rupee increases or decreases between the time the assets or services are acquired and the time we effect payments. During the financial year ended March 31, 2001 the value of the rupee declined against the U.S. dollar and we incurred a foreign exchange loss of Rs.19.5 million and Rs.45 million in six months ended September 30, 2001. The loss was largely a result of purchases of capital equipment by Bharti Cellular for carrying out network expansion and setting up of networks in our new cellular circles and purchase of equipment by Bharti Mobinet.

Future economic or political developments may cause further declines in the value of the rupee, which in turn could increase the effective cost of equipment and services purchased from outside India and adversely effect our cash flow, financing requirements and net income. In addition, in the future we may incur debt denominated in U.S. dollars or other foreign currencies, the rupee equivalent amount of which would increase upon a decline in the value of the rupee against such currencies.

We have previously entered into forward exchange rate contracts to hedge our foreign exchange rate exposure. Typically, such contracts are for period not exceeding six months, since we believe that it is an adequate period to anticipate exchange rate movements and hedge our risks, while keeping the expenses associated with such hedging arrangements at a low level.

**Interest rate risk**

According to the Income-tax Act, interest earned on loans made to infrastructure projects, including projects in telecommunication services, is eligible for preferential tax treatment under section 10(23G). As a result of this benefit, we are able to obtain financing for our projects at interest rates at competitive levels. A substantial portion of our loans outstanding as of December 31, 2001 benefit from this treatment. All loan agreements pertaining to such loans include clauses that provide for interest rate increases of 1.0% to 3.0% if the preferential tax treatment becomes unavailable to the lenders due to withdrawal by the Government or for any reason whatsoever. In such an event, we will have the option to pay the higher interest rate or to redeem the outstanding indebtedness after a grace period.

Recently, we have also entered into interest swap arrangements with a bank in respect of certain loans for our cellular business in the Andhra Pradesh and Karnataka circles. The swap arrangements are for loans amounting to Rs.1.65 billion which are valid upto June 2004, loans amounting to Rs.450 million which are valid upto June 2009 and Rs.2 billion, which are valid upto January 2010. Under the swap arrangements, we will receive interest payments at a fixed rate of interest, whereas our liability to the lender is at a floating-rate of interest calculated on the basis of the prevailing interest rate on government securities plus a fixed spread. In the event the interest rate payable on government securities increases substantially, we may have to incur high costs on these swap transactions, resulting in loss.

**Recent Accounting Pronouncements**

***IAS 40***

IAS 40 prescribes the accounting treatment for investment property and related disclosure requirements. The standard is effective for annual financial statements covering periods beginning on or after January 1, 2001. The standard replaces previous requirements in IAS 25, Accounting for Investments.

***As per Indian Accounting Standards***

Bharti Tele-Ventures is a holding company and conducts its businesses through its subsidiaries engaged in the telecommunications businesses. The cellular, access, national long distance and broadband businesses are provided by our subsidiaries namely:

| Business | Entity |
|---|---|
| Cellular | Bharti Cellular in respect of nine circles, Bharti Mobile in respect of three circles, Bharti Mobinet in respect of the Chennai circle, Bharti Mobitel in respect of the Kolkata circle and Bharti Telenet in respect of the Himachal Pradesh circle |
| Access | Bharti Telenet |
| Long distance | Bharti Telesonic |
| Broadband | Bharti Broadband Networks |

The main sources of revenue for Bharti Tele-Ventures is interest income, profit from sale of securities, profit on sale of long term investments and lease rentals. Also, Bharti Tele-Ventures received management fee from its subsidiaries for a period of three months. The significant expenditure is due to personnel expenses, legal and professional fee, advertisement and publicity and other expenses. As of September 30, 2001, on an unconsolidated basis under Indian Accounting Standards, Bharti Tele-Ventures had a total investment of Rs.14,020 million in its subsidiary companies, the details of which are set forth below:

| As of | Cumulative Number of Shares | Shares Issued / Purchased | Consideration Rs. | Per Share Cost Rs. |
|---|---|---|---|---|
| **Bharti Cellular** | | | | |
| March 29, 1996 | 28,049,993 | 28,049,993 | 280,499,930 | 10.00 |
| April 4, 1996 | 28,050,000 | 7 | 70 | 10.00 |
| September 28, 1996 | 36,210,000 | 8,160,000 | 81,600,000 | 10.00 |
| January 20, 1997 | 53,550,000 | 17,340,000 | 173,400,000 | 10.00 |
| October 4, 2000 | 55,650,000 | 2,100,000 | 370,720,000 | 176.53 |
| June 8, 2001 | 58,799,990 | 3,149,990 | 460,000,000 | 146.03 |
| September 5, 2001 | 104,999,983 | 46,199,993 | 7,794,317,784 | 168.71 |
| **Bharti Telenet** | | | | |
| April 30, 1996 | 350 | 350 | 3,500 | 10.00 |
| December 4, 1996 | 1,500,000 | 1,499,650 | 14,997,000 | 10.00 |
| November 10, 1997 | 2,550,000 | 1,050,000 | 10,500,000 | 10.00 |
| December 4, 1997 | 8,415,000 | 5,865,000 | 58,650,000 | 10.00 |
| December 30, 1998 | 36,720,000 | 28,305,000 | 283,050,000 | 10.00 |
| February 2, 1999 | 102,000,000 | 65,280,000 | 652,800,000 | 10.00 |
| July 1, 2000 | 202,965,000 | 100,965,000 | 1,009,650,000 | 10.00 |
| September 8, 2000 | 209,399,950 | 6,434,950 | 64,671,250 | 10.05 |
| October 4, 2000 | 299,999,950 | 90,600,000 | 977,576,871 | 10.79 |
| **Bharti Tele-Spatial** | | | | |
| March 31, 2001 | 1,000,000 | 1,000,000 | 13,768,000 | 13.77 |
| June 26, 2001 | 1,176,471 | 176,471 | 274,025,901 | 1,552.81 |

| As of | Cumulative Number of Shares | Shares Issued / Purchased | Consideration Rs. | Per Share Cost Rs. |
|---|---|---|---|---|
| **Bharti Broadband** | | | | |
| November 24, 2000 | 1 | 1 | 10 | 10.00 |
| December 15, 2000 | 7 | 6 | 60 | 10.00 |
| **Bharti Telesonic** | | | | |
| August 1, 2000 | 7 | 7 | 350 | 50.00 |
| March 12, 2001 | 45,000,000 | 44,999,993 | 2,249,999,650 | 50.00 |
| May 12, 2001(1) | 225,000,000 | 180,000,000 | - | - |
| May 14, 2001(2) | 150,000,000 | (75,000,000) | (750,000,000) | |

(1) Bonus Issue

(2) 30% Shareholding was transferred to Bharti Telenet

The following description of the results of operations of Bharti Tele-Ventures is on an unconsolidated basis, under Indian Accounting Standards. See also the related financial statements of Bharti Tele-Ventures prepared in accordance with Indian Accounting Standards presented from page no. 176 of this red herring prospectus.

*Results of operations*

For the six months ended September 30, 2001, Bharti Tele-Ventures had a total income of Rs.560 million, of which approximately 71% was due to profit on sale of securities, 24% on account of interest income on investments (bonds and government securities) and deposits with the balance from lease rentals and other income including management fee and exchange fluctuation. Also, during such period, personnel expenses constituted approximately 38%, legal and professional fee constituted approximately 20% and advertisement and publicity constituted approximately 18% of the total expenditure. Bharti Tele-Ventures incurred Rs.14 million as financial expenses on term loans for the period and charged Rs.10 million and Rs.165 million towards amortisation and depreciation, respectively.

Amortisation expenses relate to goodwill written off due to amalgamation of Jubliant, Jumbo and Viscount. Pursuant to the amalgamation of the Company's former wholly-owned subsidiaries Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited with the Company, as approved by the High Court of Delhi in its order dated October 29, 2001 and the High Court of Madras in its order dated June 28, 2001; was effective on December 24, 2001 on receipt of Certificate of Registration of Orders of Court from the Registrar of the Companies, NCT of Delhi and Haryana, all the properties, assets, liabilities and reserves of erstwhile Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited were transferred to and vested in the Company with effect from the appointed date which is April 1, 2001.

The above scheme of amalgamation has been accounted for under the purchase method, that is assets and liabilities of the erstwhile Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited have been recorded in the Company's books at their book value without accounting for cumulative losses aggregating to Rs.263,617 in the respective companies. The share capital of the erstwhile Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited, aggregating Rs.30,000,000 has been adjusted against the cost of investment in the share capital of Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited, aggregating Rs.180,036,220 resulting in goodwill of Rs.150,299,837 as above.

Subsequent to the above amalgamation, the Company has transferred its entire shareholding in SC Cellular Holdings Limited to Bharti Cellular, its wholly-owned subsidiary, for a profit of Rs.150.30 million. Accordingly, the Company has written off the entire goodwill amount in the current period.

For a comparison of financial years 2000 and 2001, Bharti Tele-Venture's total income increased approximately 269% from Rs.156 million to Rs.578 million, interest income increased approximately 180% from Rs.85 million to Rs.239 million and profit on sale of securities increased approximately 784% from Rs.32 million to Rs.283 million. Bharti Tele-Ventures sold its investment in Bharti Mobitel to SC Cellular (subsidiary of Bharti Cellular) at Rs.1,550 million, thereby realising a profit of Rs.252.04 million from the sale. Also for financial year 2000 compared to financial year 2001, personnel expenses increased approximately 330% from Rs.19 million to Rs.83 million. Bharti Tele-Ventures incurred Rs.290 million as financial expenses for the financial year 2001 in comparison to Rs.53 million in financial year 2000.

For the comparison of financial years 1999 and 2000, Bharti Tele-Venture's total income increased approximately 180% from Rs.56 million to Rs.156 million, interest income increased approximately 112% from Rs.24 million to Rs.51 million and profit on sale of securities increased approximately 230% from Rs.10 million to Rs.33 million. Also during such period, personnel expenses increased approximately 46% from Rs.13 million to Rs.19 million. Bharti Tele-Ventures incurred Rs.53 million as financial expenses for the financial year 2001 in comparison to Rs.1 million in financial year 2000.

## CAPITALISATION

The following table sets forth, as of September 30, 2001, the short-term debt, long-term debt and capitalisation of Bharti Tele-Ventures on a consolidated basis prepared in accordance with IAS on an actual basis and as adjusted for the Offering. This information should be read in conjunction with our financial statements prepared in accordance with IAS and related notes included elsewhere in this red herring prospectus and the section on “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

| | As of September 30, 2001 | | | |
|---|---|---|---|---|
| | Actual | | As adjusted for the Offering* | |
| | (in millions) | | | |
| Debt: | | | | |
| Short-term debt[1] | Rs.3,756 | US$78 | Rs.1,505 | US$31 |
| Long-term debt [2] | 11,161 | 233 | 8,462 | 177 |
| Shareholders’ equity: | | | | |
| Share capital [3] | 43,794 | 914 | [•] | [•] |
| Retained earnings[4] | (2,254) | (47) | [•] | [•] |
| Total shareholders’ equity [5] | 41,540 | 867 | [•] | [•] |
| Total capitalisation [6] | 56,457 | 1,179 | [•] | [•] |
| Long-term debt / Total shareholders’ equity | 0.27 | 0.27 | [•] | [•] |

(1) Short-term debt includes short-term borrowings and current portion of long-term debt of Rs.626 million.

(2) Long-term debt is net of current portion and includes non-interest bearing security deposits of Rs.1,267 million.

(3) Share capital includes share premium, advance against equity, deferred stock compensation and loan to ESOP trust.

(4) Retained earnings represent accumulated losses as of March 31, 2001.

(5) Total shareholders’ equity represents share capital less retained earnings.

(6) Total capitalisation consists of short-term debt, long-term debt and total shareholders’ equity.

* The information in this table will be completed after the Issue Price is finalised through the Book-Building Process.

The following table sets forth, as of September 30, 2001, the short-term debt, long-term debt and capitalisation of Bharti Tele-Ventures on an unconsolidated actual basis and as adjusted for the Offering . The information given below is prepared in accordance with Indian Accounting Standard, which differs materially from IAS. For further details, see “Significant Differences between IAS, Indian Accounting Policies and US GAAP “. Please read this information in conjunction with Bharti Tele-Ventures’ financial statements prepared in accordance with Indian Accounting Standard.

| | As of September 30, 2001 | |
|---|---|---|
| | Actual | As adjusted for the Offering* |
| | (in millions) | |
| Debt: | | |
| Short-term debt | Rs. 1,000 | Rs. 1,000 |
| Long-term debt | 538 | 538 |
| Shareholders’ equity: | | |
| Share capital [1] | 16,680 | [•] |
| Reserves [2] | 23,734 | [•] |
| Total shareholders’ equity | 40,414 | [•] |
| Total capitalisation[3] | 41,952 | [•] |
| Long-term debt / Shareholders’ equity | 0.01 | [•] |

(1) Share capital includes advance against share application money and share premium.

(2) Reserves include advance against share application money.

(3) Total capitalisation consists of short-term debt, long-term debt and total shareholders’ equity.

- The information in this table will be completed after the Issue Price is finalised through the Book-Building Process.

## OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

Save as stated herein:

- there is no outstanding or pending litigation, suit, criminal or civil prosecution, proceeding initiated for offence (irrespective of whether specified in paragraph (I) of Part 1 of Schedule XIII of the Companies Act) or litigation for tax liabilities against Bharti Telecom, the Company or its directors or subsidiaries.
- there are no defaults, non payments or overdues of statutory dues, institutional or bank dues or dues towards holders of debentures, bonds and fixed deposits and arrears of preference shares, other than unclaimed liabilities of Bharti Telecom, the Company and its subsidiaries.
- no disciplinary action has been taken by SEBI or any stock exchanges against Bharti Telecom, the Company or its directors or subsidiaries.
- there are no outstanding litigations against the directors of Bharti Tele-Ventures.

**Outstanding litigation involving Bharti Tele-Ventures**

*Litigation relating to the acquisition of Bharti Mobinet*

Bharti Mobinet was incorporated in 1992 with four partners, Crompton Greaves holding 40.5%, BellSouth holding 24.5%, Millicom holding 24.5% and DSS holding 10.5%. Bharti Mobinet received a license to provide cellular services in the metropolitan area of Chennai and commenced operations in 1995.

On May 3, 2000, Crompton Greaves, DSS, Millicom and BellSouth orally agreed to sell their shares of Bharti Mobinet to Bharti Tele-Ventures. Following this oral agreement, Bharti Tele-Ventures entered into a share purchase agreement with Crompton Greaves and acquired 40.5% of the share capital of Bharti Mobinet from Crompton Greaves on August 7, 2000. Subsequent to that acquisition, various legal actions arose between Crompton Greaves and Bharti Tele-Ventures, on the one hand, and the other shareholders (consisting of BellSouth, Millicom and DSS), on the other. The legal actions were based, *inter-alia*, on the claim that the acquisition of Crompton Greaves' shareholding was in breach of the terms of the Bharti Mobinet joint venture agreement.

Subsequently, Bharti Tele-Ventures acquired the equity interests of BellSouth and Millicom in Bharti Mobinet pursuant to share purchase agreements dated July 12, 2001 and July 18, 2001, respectively. As a result of these acquisitions, the disputes between Crompton Greaves and Bharti Tele-Ventures, on one hand, and BellSouth and Millicom, on the other, have come to an end. The respective parties have initiated steps to obtain formal orders from the respective courts for recording their agreement and putting an end to the legal actions between them.

The following legal actions with respect to Bharti Tele-Ventures' acquisition of equity interests in Bharti Mobinet are pending:

1. Crompton Greaves has filed a suit (No.884 of 2000) before the Madras High Court against BellSouth, DSS, Millicom, Bharti Mobinet and Bharti Tele-Ventures seeking:

- an order that there are no disputes between Crompton Greaves, BellSouth, Millicom and DSS for being referred to arbitration in view of the understanding unanimously arrived at between all shareholders of Bharti Mobinet on May 3, 2000; and
- to restrain BellSouth, Millicom and DSS from initiating any arbitration proceedings against Crompton Greaves.

On an application by Crompton Greaves for interim relief, the Madras High Court granted an ad-interim injunction restraining the parties from invoking the arbitration till the next date of hearing, which was fixed for December 21, 2000. However, the interim order was disposed off with the court directing the parties to refer their disputes to an arbitrator.

Crompton Greaves filed an appeal against this interim order. The appeal was heard on April 2, 2001 by a two judge division bench of Madras High Court, when it stayed the operation of the interim order.

The next hearing on this matter is yet to be fixed.

2. Mr. Satwant Singh filed a petition as Chairman and Managing Director of Bharti Mobinet (O.S. No. 930 of 2000 dated December 7, 2000) before the Madras High Court and applications on behalf of Bharti Mobinet seeking the reliefs, *inter-alia*, of restraining Bharti Tele-Ventures or Crompton Greaves from interfering in the management of Bharti Mobinet or acting as directors of Bharti Mobinet.

Another suit (No.931 of 2000) was filed by Crompton Greaves before the Madras High Court against Bharti Mobinet, DSS, BellSouth, Millicom, Bharti Tele-Ventures and 8 other individuals seeking the reliefs of:

- declaring that the annual general meeting dated August 23, 2000 and consequently the Board meeting dated August 26, 2000 under the Chairmanship of Mr. Satwant Singh is illegal and void;
- declaring that the notice dated November 28, 2000 for the Board of Directors meeting of Bharti Mobinet issued by Mr. Satwant Singh scheduled to be held on December 8, 2000 was illegal and void;
- a permanent injunction restraining DSS, BellSouth, Millicom and other individual parties to the suit from proceeding with the Board Meeting.

Pursuant to a common order in the above two suits, the court granted an interim injunction on December 8, 2000, which permitted Mr. Satwant Singh to continue with the Board meeting on December 8, 2000 and restraining certain Crompton Greaves/Bharti Tele-Ventures nominees from attending the Board meeting and further restraining Mr. P.H. Rao, the Managing Director and Mr. Venkatraman, the Chief Financial Officer-cum-Company Secretary from holding the office of Director and employee of Bharti Mobinet, respectively.

An appeal was filed against this order on December 10, 2000, before a 2-judge bench of the Madras High Court. The bench, pending the hearing and final disposal of the appeal, stayed the order of the single judge and directed *status-quo* as on December 7, 2000 to be maintained. The bench of the High Court by its final order dated March 27, 2001 allowed the appeal and set aside the order of the single judge dated December 8, 2000, holding, *inter-alia*, that:

- the Board of Directors of Bharti Mobinet shall comprise all those who were Directors prior to August 23, 2000;
- Mr. Satwant Singh cannot be regarded as the Chairman and Managing Director and that Bharti Mobinet continues to be managed by Mr. P.H. Rao as Managing Director and Mr. Venkatraman shall continue as the Chief Financial Officer-cum-Company Secretary of the Company; and

- the dispute between the parties should be resolved pursuant to the arbitration process agreed to in the Bharti Mobinet joint venture agreement.

BellSouth, Millicom and DSS filed appeals against this order to the Supreme Court of India. These appeals were heard by the Supreme Court on September 21, 2001, wherein the appeals filed by BellSouth and Millicom were dismissed as withdrawn and the appeal filed by DSS is pending. The Supreme Court has not admitted the appeals and no order has been granted staying the order dated March 27, 2000 of the Madras High Court.

The appeal of DSS was heard on January 17, 2002 and was adjourned to be renotified.

3. DSS also filed a suit before the City Civil Court at Delhi (Suit No. 115 of 2000) against Crompton Greaves, Millicom, BellSouth, and Bharti Mobinet to:

- restrain Crompton Greaves from selling, transferring and/or creating any third party rights in shares held by Crompton Greaves in Bharti Mobinet, save and except in accordance with the Articles of Association of Bharti Mobinet; and
- restrain Bharti Mobinet from registering any transfer of shares except with the prior written consent of DSS and in accordance with the Articles of Association of Bharti Mobinet.

An application for interim injunction was also filed along with the suit, pursuant to which Crompton Greaves was restrained from selling its shares in Bharti Mobinet to any third party. The order has subsequently been vacated. The matter is coming up for hearing next on January 31, 2002.

4. DSS has filed a suit (No.2089/2001) before the Delhi High Court against, *inter-alia*, Bharti Tele-Ventures seeking enforcement of an agreement alleged to have been entered into between Bharti Tele-Ventures and DSS for the sale of the shareholding of DSS in Bharti Mobinet for an amount of Rs.625 million and have also made certain allegations in respect of certain management and shareholder issues including the rights issues and the sale and purchase of Bellsouth and Millicom shares by the Company. This matter was heard by the court on October 4, 2001 but the court did not pass any interim orders in this matter. At the hearing of DSS' appeal to the Supreme Court discussed at item (2) (above), the Supreme Court, on October 12, 2001, has stayed further proceedings in this suit until further orders. The High Court has listed this suit for hearing on February 5, 2002. In respect of the same alleged transaction relating to the sale of the shareholding of DSS in Bharti Mobinet, Crystal Technologies Private Limited, or Crystal, an intermediary in the transaction, has filed an application requesting the appointment of an arbitrator to adjudicate a dispute between the Company and Crystal under an agreement alleged to have been executed between the Company and Crystal. Even if the decisions are adverse to Bharti Tele-Ventures in respect of both the disputes raised by Crystal and DSS, we believe, based on legal opinion, that Bharti Tele-Ventures may not be exposed to a pecuniary liability which will exceed Rs.625 million.

Income Tax Proceedings:

(i) For the assessment year 1997-98, an appeal is pending for an amount of Rs.13,563,253 before the Commissioner of Income-tax (Appeals), or CIT(A) for rectification of additional interest under Section 220(2).

**Outstanding litigations against Bharti Tele-Ventures' Subsidiaries as of December 31, 2001**

**Bharti Cellular Limited**

*Cases filed against Bharti Cellular Limited*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Proceedings under Section 138 of the Negotiable Instruments Act, 1881, relating to dishonoured cheques. | - | - |
| MRTP Cases, of which: | | |
| 8 complaints filed by subscribers before MRTP Commission | | |
| 4 investigations initiated against Bharti Cellular by the Director General of MRTP | 12 | NA |
| Consumer Cases | 26 | 0.35 |
| Civil Suits | 6 | Monetary claims not specified except for Matrix Rent-A-Tel in which the amount specified is 0.5 |
| Case filed in High Court for stay of arbitration proceedings regarding Signature towers and one for Matrix Rent-A-Tel. Bharti Cellular has moved application for directing parties to settle matters before the referred arbitrator | 2 | NA |

*Cases filed by Bharti Cellular Limited*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Proceedings under Section 138 of the Negotiable Instruments Act, 1881, relating to dishonoured cheques. | 1,667 | 1,6.01 |
| Civil Suits | 6 | 1.02 |
| Petition for winding up of Sanchar Tele Equipment Private Limited by reason of inability to pay dues | 1 | 1.67 |
| Arbitration proceeding against Matrix Rent-A-Tel | 1 | 29.27 |
| Cases filed under Order 37 of CPC for recovery of monies | 153 | 2.5 |

**Bharti Mobile Limited**

*Cases filed against Bharti Mobile Limited*

**Parasrampuria Credit & Investments Company Limited case**

Mr. Raghuvinder Kumar Kataria and his group company along with few other non-resident entities had applied for a licence to the Government to operate cellular services in the circles of Andhra Pradesh, Karnataka and Punjab. As Mr. Kataria was unable to participate in the application himself due to the policy of the Government, he nominated Parasrampuria Credit & Investments Company Limited, or PCIL, to be the shareholder in Bharti Mobile and to execute a shareholders agreement with the other shareholders of Bharti Mobile on behalf of Mr. Kataria and his group companies. After the licences were granted and the relaxation of the policy of the Government in relation to investment in the telecom sector, Mr. Kataria withdrew the nomination and sought to hold the shares of Bharti Mobile himself through his group company, United Telecom. On the withdrawal of such nomination, there arose a dispute between Mr. Kataria and PCIL. The details of legal actions are as below:

(1) PCIL along with Mr. Alok Parasrampuria filed a suit at the City Civil Court, Bangalore (Suit No. 2889/1996) against Mr. Kataria, United Telecom, Sanmar Electronic Corporation Ltd., Jasmine International Public Company Limited, Telephone Organisation, Thailand and Telia AB, seeking the reliefs of:

- a permanent injunction restraining Mr. Kataria for holding himself as having any interest, claim or right direct or indirect in Bharti Mobile; and
- restraining the defendants from committing a breach of any of the terms of the Bharti Mobile joint venture agreement dated June 5, 1995.

In this suit, PCIL filed applications for interlocutory injunction and other reliefs.

In or around the same time, the Mr. Kataria and the shareholders had filed an application before the City Civil Court under the above suit to stay the suit and direct PCIL to refer the matter to an arbitrator as agreed by PCIL under the Agreement dated June 5, 1995. The trial court by its order dated December 12, 1996 rejected Mr. Kataria and the shareholders' contention and declined the relief prayed for in the Mr. Kataria and the shareholders' application. Mr. Kataria and the shareholders applied to the Karnataka High Court by a Revision Application which Revision Application was also dismissed by the order dated June 19, 1997 of the Karnataka High Court.

The trial court thereafter heard the PCIL application, which were also rejected by its order dated May 27, 1998. PCIL filed an appeal against this order before the Karnataka High Court. The Karnataka High Court by its order dated August 3, 1999 rejected the appeal and declined to interfere with the order passed by the trial court.

No material interim orders have been issued by the court in this matter. The defendants in this suit have filed an application before the court to direct PCIL to pay the court fees on the value of the suit and a preliminary objection as to the maintainability of the suit as been raised due to deficient court fees. The said application has been decided and the court has directed PCIL to file court fees on the basis of the authorised capital of Bharti Mobile, which would amount to approximately Rs.20 million. PCIL has filed a revision petition before the Karnataka High Court and the matter was listed for orders on October 29, 2001. After hearing the arguments of both the parties, the court has reserved its judgement orders and it is expected to be pronounced on January 25, 2002.

(2) R K Associates and Mr. Kataria have filed a suit before the Delhi High Court against PCIL, Mr. Om Prakash Parasrampuria, Mr. Alok Parasrampuria and Bharti Mobile, seeking the following reliefs:

- declaration that PCIL was only a nominee of Mr. Kataria and that the nomination ceased since January 20, 1996 and PCIL is not entitled to participate as a shareholder of Bharti Mobile;
- declaration that Mr. Kataria and not PCIL is the principal Indian shareholder of Bharti Mobile; and
- decree for permanent injunction against PCIL from claiming any shares of Bharti Mobile.

No material interim orders have been issued in this matter. This suit is pending and is next listed for hearing on May 9, 2002.

(3) PCIL also filed a writ petition (No.1486 of 1998) against the Union of India, Bharti Mobile and others, *inter-alia*, challenging the approval granted by the DoT to Bharti Mobile permitting the allotment of 20% equity shares of Bharti Mobile to United Telecom Limited and the permission to Bharti Mobile to implement the Punjab license through its subsidiary Evergrowth Limited.

The court had issued notice to the Union of India on this matter but no material orders have been passed by the court in this matter. The matter has been admitted for hearing and the date of hearing is to be fixed by the court.

Pursuant to share acquisition agreements, United Telecom's shareholders now own equity shares of Bharti Tele-Ventures and, pending the resolution of this dispute, have pledged 11 million equity shares of Bharti Tele-Ventures to Bharti Tele-Ventures. This pledge may be invoked by Bharti Tele-Ventures in the event that PCIL is successful in its claim against United Telecom described above and Bharti Tele-Ventures may:

- cancel the pledged Bharti Tele-Ventures equity shares;
- transfer the pledged Bharti Tele-Ventures equity shares for such consideration as deemed fit; or
- transfer the pledged Bharti Tele-Ventures equity shares to its associate/affiliate companies.

**Dispute in relation to Punjab License**

Our license to provide cellular services in Punjab was terminated on July 15, 1999 due to the non-payment of dues claimed by the DoT and disputed by us. In September 2001, we accepted an offer from the DoT demanding the payment of Rs.4,910 million as a condition to the restoration of the Punjab license and referring to arbitration our dispute in relation to the payment of license fees for a period of 693 days during which cellular services could not be provided in Punjab. Accordingly, the Punjab license has been restored in the name of Bharti Mobile and the dispute regarding the payment of license fees in respect of the disputed period has been referred to arbitration, and proceedings have commenced on October 9, 2001.

We believe, based upon legal advice, that our final liability will not exceed Rs.800 million and have provided for Rs.800 million in our consolidated financial statements for the financial year 2000 since we acquired management control of Bharti Mobile in November 1999. The additional amount of Rs.4,110 million has been considered as recoverable in our consolidated financial statements and has consequently not been provided for. However, as the matter is under arbitration, there can be no assurance that our liability as determined by the arbitrator will be limited to Rs.800 million and, accordingly, that we will be able to recover all or any part of the Rs.4,110 million that we have considered recoverable.

Bharti Mobile entered into agreements of financial arrangement on September 6, 1996 with Evergrowth and Essar Investments Limited, or Essar, wherein Essar was to provide necessary funding and facilitate implementation of the Punjab license through Evergrowth. Pursuant to these arrangements, until such time as the loan, accrued interest thereon, or any other sums due or payable under the arrangement are outstanding, Essar has been given powers to govern the operating and financial policies of Evergrowth and thereby derive benefits from its operations. Essar funded Evergrowth to operate the Punjab license and provide cellular services in Punjab. Subsequently, Evergrowth defaulted in the payment of license fees and other dues to the DoT resulting in the termination of the Punjab license on July 15, 1999. Bharti Mobile has notified Essar on September 21, 2001 that the agreements entered into with Essar stand terminated. In addition, on September 22, 2001, Bharti Mobile, in its acceptance of the restoration offer of the DoT, has confirmed that it would not implement the Punjab license through any of its subsidiaries, including Evergrowth and the DoT has specifically noted this statement in its records.

We believe, based upon legal advice, that Essar has no rights under these agreements to make claims against us. However, there can be no assurance that no claim will be raised by Essar under these agreements, including claims for any expenses incurred by it to implement the Punjab license or in respect of a Rs.300 million loan extended by Essar to Bharti Mobile pursuant to these agreements.

**Sales Tax Recovery Proceedings**

(1) The Sales Tax Department has raised a demand of Rs.15,986,960 against Bharti Mobile (demand of Rs.4,062,310 for the financial year 1996-97 and Rs.11,924,650 for the financial year 1997-98), out of which an amount of Rs.6,978,306 was disputed. Bharti Mobile filed a writ petition in the High Court of Karnataka disputing the assessment and an amount of 50% of the demand was deposited with the Sales Tax Department, and upon the direction of the High Court, an appeal has been filed before the Appellate Tribunal.

A recovery notice and a garnishee order followed the orders. The recovery was for a sum of Rs.5,124,545. A writ petition was filed before the High Court of Karnataka challenging the recovery and the garnishee order in which the court refused to intervene and directed Bharti Mobile to file an appeal before the tribunal against the order. Bharti Mobile thereupon deposited 50% of the amount demanded. The Sales Tax Department has agreed to set aside the surplus against its current demand.

Bharti Mobile has filed a second appeal before the Karnataka Appellate Tribunal, which is pending.

(2) The Sales Tax Department has also raised a demand for the financial years 1998-99 for Rs.2,121,318. Bharti Mobile has preferred an appeal before the Joint Commissioner of Appeals and also for a stay of the recovery notice. Bharti Mobile has been directed to deposit 50% of the demand amount and to provide a bank guarantee for the balance 50% of the demand.

(3) The Sales Tax Department has also completed the provisional assessment for the financial year 2001 in two phases. The Department has also raised demand notices for Rs.3,891,974 and Rs.4,664,342, against which Bharti Mobile has filed appeal. Pending final hearing of such appeals, Bharti Mobile has been directed to pay 50% of the claimed amounts and the balance by way of bank guarantee.

**Service Tax Proceedings**

Bharti Mobile was paying service tax initially on the basis of amounts collected. The Central Excise department issued a show cause notice directing Bharti Mobile to pay a sum of Rs.873,192 towards service tax and Rs.34,925 towards interest, in respect of the year 1998-99. The demand was made based on the assumption that service tax is payable on the amount billed and not the amount collected. Bharti Mobile filed an appeal against this demand. The Commissioner of Central Excise (Appeals) on hearing the appeal instructed Bharti Mobile to pay 50% of the demand and the balance on decision of the appeal, if it goes in favour of the department. Subsequently, the department issued a show cause notice asking Bharti Mobile to pay Rs.2,501,047 towards the balance service tax for the period October 1997 to June 1998 together with interest of Rs.782,936. Bharti Mobile has filed another appeal, which is pending.

**Income-tax Proceedings**

Bharti Mobile has appealed to the Commissioner of Income-tax Appeals (II) for disallowing expenditure to the extent of Rs.2,442,950, while assessing the filing for the financial year 1998. The hearing date has not been fixed. The assessment for the financial year 1997 has been completed, although the orders are awaited. Returns for the financial years 1999 and 2000 have been filed but not assessed.

**Others**

*Cases filed against Bharti Mobile*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Consumer Cases | 13 | 0.76 |
| Civil cases | 8 | NA |
| Labor cases | 2 | NA |

*Cases filed by Bharti Mobile*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Criminal cases filed under Section 138 of the Negotiable Instruments Act | 333 | 2.0 |
| Criminal cases filed under Section 406/420 of the Indian Penal Code | 700 | 5.97 |
| Civil Suits | 3 | 0.83 |

**Bharti Telenet Limited**

*Cases filed against Bharti Telenet Limited*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Consumer cases | 39 | 1.50 |
| Writ Petitions in the High Court, for restoring the sites dug-up for laying telephone cables, for payment of lease rentals for laying underground telephone cables on the land belonging to the municipal corporation and for restraining Bharti Telenet from proceeding with its digging activities in terms of its license agreement. The High Court has restrained the Company from digging and laying cables. | We have filed a special leave petition in the Supreme Court of India, which has granted a stay against the High Court order and the matter is pending before the Supreme Court. | NA |
| Public interest litigation in the High Court of Chattisgarh for payment of lease rentals for laying underground telephone cables on land belonging to the municipal corporation. | The High Court has issued notice and the hearing date is still awaited. No interim orders have been passed by the court and no stay has been granted. | NA |
| A show cause notice dated January 3, 2002 has been issued by Central Excise Commissioner, Chandigarh, against our cellular operation and in Himachal Pradesh seeking to levy Central Excise duty of Rs.15.5 million in respect of the erection of various BTS towers while setting up of the Himachal Pradesh cellular network. | The reply to the show cause is to be filed by February 3, 2002. | 15.5 |
| Civil suits<br>Pradesh cellular network | 8 | NA |

*Cases filed by Bharti Telenet Limited*

BTNL had filed a writ petition before the High Court of Madhya Pradesh challenging the right of the municipal corporations to charge lease rentals in respect of the digging activities of Bharti Telenet for laying cables. The said writ was dismissed against which Bharti Telenet has filed a letters patent appeal. The date of hearing is yet to be notified by the High Court.

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Proceedings under Section 138 of the Negotiable Instruments Act, 1881 relating to dishonoured cheques. | 194 | 2.47 |

**Income Tax Proceedings:**

(i) For the assessment year 1997-98, an appeal before CIT(A) is pending under section 143(3) of Income-tax Act ,1961.

(ii) For the assessment year 1998-99, an appeal before CIT(A) for assessment order passed against the Company under Section 143(3) of the Income-tax Act.

**Bharti BT Limited**

*Cases filed against Bharti BT Limited*

**Income-tax Proceedings**

Income-tax appeal for the assessment year 1997-98 against the order of Deputy Commissioner of Income-tax, Bangalore, on the grounds of:

- Returned loss under Section 41(1) of the Income-tax Act, which relates to waiver on revenue ground was reduced by Rs.42,902,145; and
- Depreciation was reduced by Rs.1,631,395 by carrying out adjustments in the written down value of the assets (relating to waiver on capital account).

Income-tax appeal for the assessment year 1998-99 against the order of Deputy Commissioner of Income-tax, Bangalore, on the grounds of:

- Returned loss under Section 41(1) of the Income-tax Act, 1961, which relates to waiver on revenue ground was reduced by Rs.22,656,707;
- Depreciation was reduced by Rs.59,232,807 by carrying out adjustments in the written down value of the assets (relating to waiver on capital account); and
- Returned loss relating to provision for warranties was reduced by Rs.1,645,193.

*Cases filed by Bharti BT Limited*

Bharti BT Limited has filed a first information report at Hyderabad against the directors of Sparsh Communications Limited towards dishonour of cheques presented for payment through the bank. The chargesheet has been filed in this matter and is pending for consideration and issuance of warrants against the accused.

**Bharti BT Internet Limited**

*Cases filed against Bharti BT Internet*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Consumer cases | 2 | 0.01 |

**Bharti Mobinet Limited**

*Cases filed against Bharti Mobinet*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Consumer court case filed in Chennai court and customers refund cases | 20 | 0.5 |
| Service tax | 1 | 1.4 |
| Customs cases pending refund | 10 | 10.0 |
| Labour cases for reinstatement | 2 | 0.2 |
| Rent control court and city civil court for recovery of rent for notice period. Suit is pending. | 2 | 0.2 |
| Notice received from advocate for recovery of rent for notice period | One | 0.2 |
| TNEB issued show cause notice on us for recovery of amount for using additional power supply. Writ filed in the Chennai High Court against TNEB allowed. An enquiry will be made by technical person. Order is awaited. | One | 1 |

*Cases filed by Bharti Mobinet*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Proceedings under Section 138 of the Negotiable Instruments Act, 1881 relating to dishonoured cheques | 223 | 0.84 |
| Customs refund case pending in Customs Excise and Gold (Control) Appellate Tribunal and customs department | 10 | 10 |

**Bharti Mobitel Limited**

*Cases filed by Bharti Mobitel*

Bharti Mobitel has filed a writ petition (No.1802 / 2001) before the Calcutta High Court, *inter-alia*, for direction to Kolkata Corporation to implement the recommendation of expert committee report formed by Kolkata Municipal Corporation, or KMC, relating to the order issued by KMC for the demolition of BTS antennae installed on the roof of Chatterjee International Building. The High Court has ordered that *status-quo* has to be maintained until further order. It was made clear that Bharti Mobitel should get access to the material as and when necessary. The petition will be heard in due course.

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Proceedings under Section 138 of the Negotiable Instruments Act, 1881 relating to dishonoured cheques | 1,882 | 2.00 |

*Cases filed against Bharti Mobitel*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Consumer cases | 12 | 0.9 |

**Bharti Telecom Limited**

*Cases filed by Bharti Telecom*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Proceedings under Section 138 of the Negotiable Instruments Act, 1881, relating to dishonoured cheques against Altos Ltd. and others | 1 | 200 |
| Arbitrations proceeding pending against DoT/BSNL on the ground that DoT/ BSNL deducted rate difference amounts for two purchase orders and imposed liquidated damages and deducted amounts for modification of 85,000 telephones | 3 | 6.5 |

*Cases filed against Bharti Telecom Limited*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Arbitrations against the DoT/BSNL on the ground that DoT/BSNL deducted rate difference amounts for two purchase orders. Arbitrators have been appointed. | 2 | 3.9 |
| Liquidated damages deducted. Amount claimed for modification of 0.85 million telephones | 1 | 1.0 |
| *Consumer cases* | 1 | 0.5 |
| Notice issued by Deputy Commissioner and Controller of Weights and Measures for contravention of the Standards of weights and measures (Package Commodities) Rules, 1977 | 2 | NA |

**Income-tax Proceedings**

Income-tax appeal for the assessment year 1995-96 against the additions/disallowances of Rs.0.91 million, confirmed by the Commissioner of Income Tax (Appeals), is pending with Income Tax Appellate Tribunal. Further, an application is pending under Section 154 of the Income-tax Act for short credit of tax deducted at source and for short relief allowed by CIT (Appeals) for Rs.1.10 million.

Income-tax appeal for the assessment year 1996-97 against the order of the Commissioner of Income Tax (Appeals) confirming certain additions aggregating Rs.70.57 million (including long term capital gain of Rs.69.24 million), is pending with Income Tax Appellate Tribunal. Further, an application is pending under Section 154 of the Income-tax Act for short credit of TDS for Rs.0.86 million.

Income-tax appeal for the assessment year 1997-98 against the order under Section 143 (3) of the Income-tax Act for addition of Rs.5.51 million by Bharti Telecom is pending with the Commissioner of Income Tax (Appeals). Further, application under Section 154 for short credit of tax deducted at source and for excess charge of interest u/s 234B for Rs.0.86 million is pending.

For the assessment year 1998-99, an appeal before CIT(A) is pending for assessing income tax liability in an amount of Rs.4.55 million.

Assessment under Section 143(1) of the Income-tax Act for assessment years 1999-2000, 2000-2001 and 2001-2002 are pending for which refund due from the Income Tax department is estimated at Rs.0.65 million, Rs.2.93 million and Nil, respectively.

**Bharti Overseas Trading Company**

*Cases filed against Bharti Overseas Trading Company*

| Nature of other cases | Number | Amount claimed (Rs. million) |
|---|---|---|
| Appeal filed by Commissioner of Income Tax against Bharti Overseas Trading Company in Delhi High Court against the order of the Income Tax Appellate Tribunal. | The matter is not yet listed for hearing | 53.07 |
| Complaint filed by the State through Central Bureau of Investigation, against Mr. M. Apachi and others in the court of the Additional District Judge, Tis Hazari, Delhi for contravention of terms of import licenses. Mr. Rajan Bharti Mittal as partner of Bharti Overseas Trading Company is accused no.6 in this complaint. | The matter is listed for hearing on January 24, 2002 for recording pre-charge evidence. | — |

***Material Developments after September 30, 2001***

Save as stated elsewhere in the draft offer document, including “Management Discussion and Analysis of Financial Statements” and “Financial Statements - Subsequent Events”, no material developments have taken place after September 30, 2001, the date of the latest available financial statements that would materially adversely affect the performance or prospects of Bharti Tele-Ventures and its subsidiaries taken as a whole.

## GOVERNMENT APPROVALS/LICENSING ARRANGEMENTS

The present Offering does not require the approval of the Government of India, except the approvals from the FIPB and the RBI for allotting equity shares to certain potential investors. The Company has received approval from the FIPB dated December 21, 2001 and from the RBI dated January 10, 2001.

***Investment Approvals***

Indian laws regulate the foreign ownership of Indian equity shares. For further details, see "Offering Procedure - Restriction on Foreign Ownership of Indian Securities". In compliance with these regulations, we have in the past obtained, where required, necessary approvals from the Ministry of Industry (FIPB or SIA) and the RBI for foreign investors to make investments in Bharti Tele-Ventures and its subsidiaries. Similarly, changes in the equity structure of companies that hold telecommunications licenses require the approval of, or a notification to, the Ministry of Communication (Department of Telecommunication) and, where required, we have obtained such approvals or made such notifications.

The following are details of those approvals received by Bharti Tele-Ventures and its subsidiaries:

**Bharti Tele-Ventures**

(a) FIPB approval dated May 20, 1999 for increase in foreign equity participation from 20% (Rs.125.0 million) to 36% (Rs. 225.0 million) of the revised paid-up capital (Rs. 625.0 million) of BTVL for investment by Warburg Pincus (through Brentwood) .

(b) FIPB approval dated September 11, 2000, for investment by Pastel Ltd., Mauritius (a subsidiary of Singapore Telecom Ltd.).

(c) FIPB approval dated October 24, 2000 for investment by Palmobile Corporation Limited and ComEnt (Mauritius) Limited and sale of shares by STET International Netherlands NV.

(d) FIPB approval dated February 27, 2001 for foreign investment by New York Life.

(e) FIPB approval dated April 4, 2001 for investment by International Finance Corporation (IFC), Washington.

(f) FIPB approval dated August 7, 2001 for investment by Indian Continent Investment Ltd., Mauritius, Russell AIF India Telecom Ltd., Mauritius, AIF (Mauritius) India Telecom Ltd., Mauritius and Seejay Cellular Ltd., Mauritius.

(g) FIPB approval dated December 21, 2001 for increase in authorised capital from Rs.15 billion to Rs.25 billion and for NRI/OCB/FII investment in this Issue.

Bharti Tele-Ventures has made all necessary RBI filings relating to investments made by foreign shareholders Brentwood, Pastel, Palmobile and ComEnt, New York Life, IFC, Russell AIF India Telecom Ltd., Mauritius, AIF (Mauritius) India Telecom Ltd., Mauritius and Seejay Cellular Ltd., Mauritius.

**Bharti Mobile (formerly J.T.Mobiles)**

Bharti Mobile has obtained the following approvals from DoT for change in its equity structure:

(a) approval dated October 10, 2000 giving its "no-objection" for change in shareholding between existing partners of Bharti Mobile. Pursuant to the approval, SC Cellular Holdings acquired 74% shareholding from all shareholders except Telia .

(b) approval dated October 9, 2000 for increase of share capital of Bharti Mobile from Rs.3000 million to Rs.5500 million and for issuing additional shares of Rs.2500 million Rs.650 milllion to Telia and Rs.1850 million to SC Cellular.

*FIPB and RBI Approvals*

(a) FIPB approval dated December 20, 1995, for foreign equity participation of 49% in an amount of Rs.3460.8 million in the paid-up capital of Rs. 7,068.0 million by Telia and other investors.

(b) RBI approval dated July 9, 1996, to JT Mobile for issuing shares to Telia (39.0 million shares) and other shareholders.

(c) RBI approvals dated July 11 and 19, 1996, to JT Mobile for refunding excess amounts to Telia (Rs.80.90 million) and other shareholders received earlier towards subscription of shares.

(d) RBI approval dated October 17, 2000, to JT Mobile for issuing shares to Telia (6.5 billion shares) of Rs.10 each.

**Bharti Aquanet**

*FIPB / RBI approvals*

FIPB approval dated December 27, 2000 [SIA Registration No. FC.I.701 dated 28.11.2000] for equity participation by SingTel i2i Pvt. Ltd., Singapore, up to 49% in the paid-up capital of Bharti Aquanet and subsequent amendment dated January 18, 2001, recording the name of the foreign partner as SingTel i2i Pvt. Ltd., Mauritius.

***Governmental Licenses***

In view of the governmental licenses presently obtained by us, we are permitted to undertake activities presently being conducted by us and we will take steps in compliance with applicable laws to obtain any other governmental licenses or permissions required to undertake any of our proposed activities.

A telecommunications services provider requires a license from the Government prior to providing cellular, fixed-line, national long distance services, VSAT and ISP services. The licenses specify, among other things, the type of network system to be installed or type of services to be provided, the frequency spectrum allocated for the network system, the geographical region in which the holder of the license may provide the service, the term during which such service may be provided and the fees payable by the license holder to the Government.

***Cellular Service Licenses***

We have licenses to provide cellular services in six existing and nine additional circles, the details of which are given below:

| State | License held by | Reference numbers and date |
|---|---|---|
| National Capital Region of Delhi | Bharti Cellular Limited | License agreement No. 842 – 18/93-TM dated November 29, 1994. Migration package vide the DoT letter No. 842-153/99-VAS (Vol.V) (Pt.) dated July 22, 1999 and Bharti Cellular's unconditional acceptance thereof dated July 27, 1999. |
| Chennai | Bharti Mobinet Limited (formerly SkyCell Communications Limited) | License agreement No. 842 – 19/93 - TM dated November 30, 1994. Migration package vide the DoT letter No. 842-153/99-VAS (Vol.V) (Pt.) dated July 22, 1999 and Bharti Mobinet's unconditional acceptance thereof dated July 26, 1999. |
| Karnataka | Bharti Mobile Limited (formerly JT Mobiles Limited) | License agreement No. 842 – 53(B)/96-VAS dated October 18,1996. Migration package vide the DoT letter No. 842-153/99-VAS (Vol.V) (Pt.) dated July 22, 1999 and Bharti Mobile, unconditional acceptance thereof dated July 27, 1999. |
| Andhra Pradesh | Bharti Mobile Limited (formerly JT Mobiles Limited) | License agreement No. 842 – 52(A)/95-VAS dated December 22, 1995. Migration package vide the DoT letter No. 842-153/99-VAS (Vol.V) (Pt.) dated July 22, 1999 and Bharti Mobile, unconditional acceptance thereof dated July 27, 1999. |
| Himachal Pradesh* | Bharti Telenet Limited | License agreement No 842-66/95-VAS/66B dated December 12, 1995. Migration package vide the DoT letter No. 842-153/99-VAS (Vol.V) (Pt.) dated July 22, 1999 and Bharti Telenet's unconditional acceptance thereof dated July 28, 1999. |
| | | The DoT letter dated August 31, 1999 advising Bharti Telenet to submit undertaking regarding withdrawal of all legal proceedings against the DoT or Union of India and Bharti Telenet's affidavit dated August 27, 1999 on the same. |
| Kolkata | Bharti Mobitel Limited (formerly Indian Telecom Private Limited / Modi Telstra Limited / Spice Cell Limited) | License agreement No. 842 – 20/93- TM dated November 30, 1994. Migration package vide the DoT letter No. 842-153/99-VAS (Vol.V) (Pt.) dated July 22, 1999 and Modi Telstra's unconditional acceptance thereof dated July 27,1999. |
| Punjab | Bharti Mobile Limited (formerly JT Mobiles Limited) | License agreement No.842-65 (A)/95-VAS dated December 26, 1995. |
| | | Letter No. 842 - 65(A) / 2001 – VAS (Vol. VII) dated September 19, 2001 regarding restoration of terminated cellular license and simultaneous migration to NTP 1999 regime and Bharti Mobile's unconditional acceptance thereof dated September 19, 2001. |
| Maharashtra | Bharti Cellular Limited | License Agreement No. 842 - 381/2001 – VAS/Maharashtra dated September 28, 2001. |
| Gujarat | Bharti Cellular Limited | License Agreement No. 842 - 381/2001 - VAS/Gujarat dated September 28, 2001. |
| Mumbai | Bharti Cellular Limited | License Agreement No. 842 - 381/2001 - VAS/Mumbai dated September 28, 2001. |
| Haryana | Bharti Cellular Limited | License Agreement No. 842 - 381/2001 - VAS/Haryana dated September 28, 2001. |
| Uttar Pradesh (West) | Bharti Cellular Limited | License Agreement No. 842 - 381/2001 - VAS/UP (West) dated September 28, 2001. |
| Madhya Pradesh | Bharti Cellular Limited | License Agreement No. 842 - 381/2001 - VAS/Madhya Pradesh dated September 28, 2001. |
| Kerala | Bharti Cellular Limited | License Agreement No. 842 - 381/2001 - VAS/Kerala dated September 28, 2001. |
| Tamil Nadu | Bharti Cellular Limited | License Agreement No. 842 - 381/2001 - VAS/Tamil Nadu dated September 28, 2001. |

* License proposed to be transferred to Bharti Cellular, for which an application has been filed with the DoT on June 16, 2001. The matter is listed with the DoT and will be considered by the Empowered Committee constituted by the DoT.

***Technical Approvals***

Approvals from the DoT (WPC Wing) need to be obtained for assignment of radio frequency channels (microwave link frequencies and frequencies for cellular networks). Clearances from Standing Advisory Committee on Radio Frequency Allocation, or SACFA, are required for setting up cell sites. Certificates from the DoT (TEC Wing) are also required for approving Point of Interconnect, or POI, in cellular circles.

We have obtained all material approvals for carrying on the cellular businesses in six circles, including approvals from DoT (WPC and TEC Wing), except for certain SACFA approvals, for which applications have been made.

***Fixed-line Services Licenses***

We have licenses to provide fixed-line telecommunications services in the existing circle of Madhya Pradesh and four additional circles of Haryana, Karnataka, Tamil Nadu and Delhi, the details of which are given below:

| State | License held by | Reference numbers and date |
|---|---|---|
| Madhya Pradesh and Chattisgarh | Bharti Telenet Limited | License agreement No. 17-12/95-BS.II/ Madhya Pradesh dated February 28, 1997<br>Interconnection agreement with license agreement number 17-12/95-BS.II/ Madhya Pradesh dated February 28, 1997<br>Migration package, vide the DoT letter No. 842-153/99-VAS (Vol.V) (Pt.) dated July 22, 1999, and Bharti Telenet's unconditional acceptance thereof dated July 28, 1999 |
| Delhi | Bharti Telenet Limited | License agreement No.18-42/2001-BSII/Delhi dated October 29, 2001 |
| Tamil Nadu | Bharti Telenet Limited | License agreement No.18-43/2001-BSII/Tamil Nadu dated October 29, 2001 |
| Karnataka | Bharti Telenet Limited | License agreement No.18-40/2001-BSII/Karnataka dated October 29, 2001 |
| Haryana | Bharti Telenet Limited | License agreement No.18-41/2001-BSII/Haryana dated October 8, 2001 |

***Technical Approvals***

Licenses are required from the DoT, Licensing Cell (Basic Services Group), for commissioning the telephone service in various towns in our fixed-line circles. Wireless Telegraph Station approvals need to be obtained from the DoT (WPC Wing) for grant of wireless telegraph station license for operating fixed-line services. Certificates from the DoT (TEC Wing) are required for approving POI in the circles.

Approvals for assignment of radio frequency and SACFA clearances needs to be obtained for setting up sites to provide fixed-line services offering limited mobility using WLL.

We have obtained all material approvals for carrying on the fixed-line businesses in the Madhya Pradesh circle, including the approvals from DoT (WPC and TEC Wing) and DoT (BS Group), except for certain SACFA approvals, for which applications have been made.

We have interconnection agreements with other telecommunications services provider, the details of which are as under:

*Cellular Services*

| S.No. | Name of Cos | Type of Services | Service Area | Date of Agreement |
|---|---|---|---|---|
| 1 | Bharti Mobile with Spice Telecom | Cellular to Cellular | Karnataka | November 11, 1999 |
| 2 | Bharti Mobile with Usha Martin | Cellular to Cellular | Kolkata | June 11, 2001 |
| 3 | Bharti Cellular with Sterling Cellular | Cellular to Cellular | Delhi | April 16, 2001 |
| 4 | Bharti Mobile with Tata Teleservices | Cellular to Basic | Andhra Pradesh | May 18, 2001 |
| 5 | Bharti Mobile with Tata Cellular | Cellular to Cellular | Andhra Pradesh | July 13, 2001 |

***Fixed-line Services***

| S.No. | Name of Cos | Type of Services | Service Area | Date of Agreement |
|---|---|---|---|---|
| 1 | Bharti Telenet with DoT | Fixed-line to Various Services provider | Madhya Pradesh | February 28, 1997 |
| 2 | Bharti Telenet with Reliance Telecom | Fixed-line to Cellular | Madhya Pradesh | August 25, 1999 |
| 3 | Bharti Telenet with Reliance Telecom | Fixed-line to Cellular | Madhya Pradesh | October 12, 2001 |
| 4 | Bharti Telenet with BSNL | Fixed-line to Various Services provider | Haryana | December 6, 2001 |
| 5 | Bharti Telenet with RPG Cellcom | Fixed-line to Cellular | Madhya Pradesh and Chhatisgarh | December 12, 2001 |

***Long Distance Services***

Bharti Telesonic has entered into a license agreement dated November 29, 2001 for providing national long distance services within the territory of India. The license is valid for 20 years, and extendable by periods of 10 years (upon request by licensee during the 19$^{th}$ year of the license period) on mutually agreed terms.

Bharti Telesonic had obtained an Infrastructure Provider Category-I (IP-I) license on October 27, 2000 from the DoT to establish and maintain assets such as dark fiber, right of way, duct space and towers.

***Broadband Services***

**VSAT Services**

Bharti BT provides VSAT services in India under a 10 year license agreement No.815-15/93-TM dated September 15, 1994 with the DoT valid upto September 15, 2004 and extendable by one year at a time. This license for closed users group domestic, 64 kbps data network via INSAT satellite system was originally held by Wipro Infotech Limited. This license was originally assigned to Wipro BT, which in turn transferred it to Bharti BT on June 27, 2000.

*Technical Approvals*

The DoT (WPC Wing) approval conveying "in-principle" agreement to grant of Wireless Telegraph Station license to provide domestic VSAT services through Earth Station, SACFA approval for the VSAT hub and the DoT's mandatory performance verification testing of ISP satellite have been obtained.

***Internet Services***

Bharti BT Internet provides Internet services throughout India, for which it holds a license agreement no.820-58/98-LR from the DoT dated March 3, 1999, valid for a period of 15 years upto March 3, 2014, and extendable by five years at a time.

Bharti Telenet has also entered into an ISP license agreement with the DoT, no. 820-77/99-LR dated March 4, 1999 for the provision of Internet services in the Madhya Pradesh circle.

Bharti Telesonic, Bharti Cellular and Bharti Aquanet have also entered into ISP license agreements with the DoT, each dated October 10, 2001 and bearing no. 820-595/2001-LR, 820-432/2001-LR and 820-545/2001-LR, respectively, for the provision of Internet services.

Bharti Comtel has also entered into ISP license dated February 1, 2000 and bearing no. 820-211/99-LR for the provision of Internet services.

*Technical Approvals*

We have obtained all material technical approvals that are required for operating the satellite gateways.

***Licensing Arrangements***

**Cellular Licenses for Delhi, Chennai and Kolkata**

*General*

Our licenses to provide cellular mobile telephone services in the metropolitan areas of Delhi, Kolkata and Chennai contain similar terms and each license is valid for an initial term of 20 years upto November 2014.

These licenses are non-exclusive and the Government had reserved its right to build and operate a cellular mobile telephone service within the same geographical area. Upon migration to NTP 1999, the licensees would have to forego the right of operating in the regime of limited number of operators and would operate in a multipoly licensing regime (i.e. additional licenses without any limit may be issued in a given service area). Thus, the Government has the right to grant additional licenses to private operators, without limit as to number, after recommendations from the TRAI as to the timing and the terms of entry of a new operator.

*Equity Ownership*

The total foreign equity interest in the licensee companies may not exceed 49% of the total issued equity.

*Tariff Rates*

The tariff that may be charged by a cellular operator is governed by the TRAI. The TRAI has prescribed a standard tariff plan that must be offered by all cellular operators. The standard tariff plan for metropolitan areas provides for a monthly rental of Rs.475 with incoming and outgoing airtime rates of Rs.4 per minute (to be billed on a 30 second pulse) with an installation charge of Rs.1200 and a non-interest bearing refundable security deposit of Rs.2000. In addition to the tariff plan prescribed by the TRAI, the cellular operators have the flexibility to offer other tariff plans to their subscribers. For further details, see "Indian Telecommunications - Cellular Services".

*Technology*

The cellular networks must conform to GSM standards. Bharti Cellular and Bharti Mobitel are not allowed to use any encryption in the network as per the license agreement. However, on an application made by Bharti Mobinet to the DoT, the DoT vide its letter dated November 30, 1994 allowed Bharti Mobinet the use of encryption for subscribers authentication and also for voice and data as envisaged in GSM recommendations, subject to the condition that suitable monitoring facilities shall be provided as and when required by the authority.

*License Fee*

The licenses require the payment to the Government of a license fee annually at the rate of 12% of AGR, the applicable rate for license fee in the metropolitan areas. This license fee rate is applicable only if existing or future fixed-line operators are permitted to provide limited mobility services using WLL . However, if such limited mobility services are prohibited, then the applicable license fee will be 15% of AGR. This license fee has to be paid quarterly in advance to the Government with a quarter to quarter adjustments.

*Frequency Usage*

Each of the licenses permit a frequency spectrum usage of 6.2 MHz. In addition to the license fee described above, the licensee is required to pay a separate license fee and royalty charges to WPC for frequency and spectrum usage. The WPC charges are 2% of AGR for the use of frequency spectrum upto 4.4 MHz. For frequency spectrum upto 6.2 MHz, the service providers are required to pay an additional charge of 1% of AGR. Additional royalty for use of spectrum for point to point links and access links is also payable, as specified by the WPC.

*Interconnection*

The licenses permit interconnection with networks operated by BSNL, MTNL or any other service provider within the circle. In the case of outgoing calls from the licensee's network, the licensee must pay 95% of MTNL's or BSNL's charges for calls routed through either MTNL's or BSNL's fixed-line network. The licensees bill their customers for airtime and in addition are permitted to pass the MTNL or BSNL charges to their subscribers, without adding any mark-up. The licensees bear the risk of non-collection of such charges from their subscribers. In the case of incoming calls to their network, the licensees are not entitled to receive any portion of MTNL's or BSNL's charges for calls originating outside of licensees' network. In turn, the licensees are not permitted to impose any charge on their customers for such incoming calls other than airtime charges.

*Other Services*

The licensee may not engage in the provision of any value-added services that requires a license, such as paging and electronic mail, based on its cellular mobile telephone service license, without the specific permission of the licensor.

*Transferability*

The licensee shall not, without the prior written consent of the licensor, assign or transfer its rights in any manner whatsoever under the license to a third party or enter into any agreement with any third party for sub-licensing, sub-leasing or partnership relating to any subject matter of the license.

*Guarantee*

The licensees are required to maintain performance bank guarantees of Rs.20 million each in favor of the Government. In addition, the licensee is required to maintain a financial bank guarantee of an amount equal to the estimated sum payable annually towards the license fee and other dues, not otherwise securitised. The fees and royalties for the use of spectrum and also for possession of wireless telegraphy equipment shall be separately securitised by a financial bank guarantee of equal amount valid for a period of one year renewable from time to time till final clearance of all such dues.

*Modification*

The terms and conditions of the licenses may be modified at any time by the licensor if it is deemed necessary or expedient to do so in the interests of the general public, for security or for the proper conduct of telecommunications services.

*Termination*

The licensor may at any time revoke or terminate the license upon the provision of 60 days' notice if (i) the licensee fails to perform any of its obligations, including timely payments, under the license, (ii) the licensee breaches the terms and conditions of the license, including quality standards, (iii) the licensee becomes bankrupt or otherwise insolvent, (iv) the licensee transfers the license to a third party or (v) such revocation is deemed to be in the public interest. For a failure to perform or a breach of any obligation, a licensee is given a 30-day period (or such longer period as specified by the licensor) to cure such failure or breach.

*Renewal*

The licenses are renewable for additional 10-year periods at a time after the initial term at the discretion of the licensor, on such terms and conditions as the licensor may, at its sole discretion, determine, provided that the licensee is not in default or has not committed any breach of any terms and conditions of the license. In the event that the license is not renewed by either party, the licensee may dispose of its existing mobile telephone network infrastructure on commercially competitive terms subject to the licensor's right of first refusal to operate the network.

*Expropriation*

The licensor has the right to take over the entire services and networks or revoke, terminate or suspend the license in the interest of national security or in the event of a national emergency, war or low intensity conflict type of situations.

**Cellular licenses for Himachal Pradesh, Karnataka, Andhra Pradesh and Punjab**

*General*

Our licenses to provide cellular mobile telephone services in the circles of Himachal Pradesh, Karnataka, Andhra Pradesh and Punjab contain similar terms. These licenses are valid for twenty years from December 12, 1995 for Himachal Pradesh, December 22, 1995 for Andhra Pradesh, October 18,1996 for Karnataka and December 26, 1995 for Punjab. Our Punjab license, which was terminated earlier, was restored on September 19, 2001. These licenses are non-exclusive and the Government has reserved its right to build and operate a cellular mobile telephone service within the same geographical area. Upon migration to NTP 1999, the licensees will forego the right of operating in the regime of limited number of operators and would operate in a multipoly licensing regime (i.e. additional licenses without any limit may be issued in a given service area). Thus, the Government has the right to grant additional licenses to private operators, without limit as to number, after recommendations from the TRAI as to the timing and the terms of entry of a new operator.

*Equity Ownership*

The total foreign equity interest in the licensee companies shall not exceed 49% of the total issued equity.

*Tariff Rates*

The tariff that may be charged by a cellular operator is governed by TRAI. TRAI has prescribed a standard tariff plan that must be offered by all cellular operators. The standard package for circles provides: a monthly rental of Rs.500 with incoming and outgoing call charges at Rs.4.50 per minute (to be billed on a 30-second pulse), with a one-time installation charge of Rs.1200 and a non-interest bearing refundable security deposit of Rs.2000. In addition to the tariff plan prescribed by the TRAI, the cellular operators have the flexibility to offer other tariff plans to their subscribers. For further details, see "Indian Telecommunications - Cellular Services".

*Technology*

The cellular network must conform to GSM standards. Bharti Telenet and Bharti Mobile may use encryption for subscriber authentication and for voice and data transmission pursuant to GSM recommendations, provided that suitable monitoring facilities are provided as and when required by the DoT.

*License Fee*

The licenses require the payment to the Government of a license fee annually at the rate of 10% of AGR, the applicable rate for license fee for category B circles. This license fee rate is applicable only if existing or future fixed-line operators are permitted to provide limited mobility services using WLL. However, if such limited mobility services are prohibited, then the applicable license fee will be 15% of AGR. This license fee has to be paid quarterly in advance to the Government with quarter-to-quarter adjustments.

*Frequency Usage*

Each of the licenses permit a frequency spectrum usage of 6.2 MHz. In addition to the license fee described above, the licensee is required to pay a separate license fee and royalty charges to WPC for frequency and spectrum usage. The WPC charges are 2% of AGR for the use of frequency spectrum upto 4.4 MHz. For frequency spectrum upto 6.2 MHz, the service providers are required to pay an additional charge of 1% of AGR. Additional royalty for use of spectrum for point to point links and access links is also payable, as specified by the WPC.

*Interconnection*

The licenses permit interconnection with networks operated by BSNL, MTNL or any other service provider within the circle. In the case of outgoing calls from the licensee's network, the licensee must pay 95% of MTNL's or BSNL's charges for calls routed through either MTNL's or BSNL's fixed-line network. The licensees bill their customers for airtime and in addition are permitted to pass the MTNL or BSNL charges to their subscribers, without adding any mark-up. The licensees bear the risk of non-collection of such charges from their subscribers. In the case of incoming calls to their network, the licensees are not entitled to receive any portion of MTNL's or BSNL's charges for calls originating outside of licensees' network. In turn, the licensees are not permitted to impose any charge on their customers for such incoming calls other than airtime charges.

*Other Services*

The licensee shall not engage in the provision of any value-added services that requires a license, such as paging, voice mail and electronic mail, based on its cellular mobile telephone service, without the specific permission of the Government.

*Transferability*

The licensee shall not, without the prior written consent of the licensor, assign or transfer its rights in any manner whatsoever under the license to a third party or enter into any agreement with any third party for sub-licensing, sub-leasing or partnership relating to any subject matter of the license.

*Guarantees*

The licensees are required to maintain performance bank guarantees of Rs.20 million (for Himachal Pradesh), Rs.100 million for the Punjab circle and Rs.200 million each for Andhra Pradesh and Karnataka circles respectively as performance security for their obligations under the licenses. In addition, the licensee is required to maintain a financial bank guarantee of an amount equal to the estimated sum payable annually towards the license fee and other dues, not otherwise securitised. The fees and royalties for the use of spectrum and also for possession of wireless telegraph equipment shall be separately securitised by a financial bank guarantee of equal amount valid for a period of one year renewable from time to time till final clearance of all such dues.

*Modification*

The terms and conditions of the license may be modified at any time by the licensor if it is deemed necessary or expedient to do so in the interest of the general public, for security or for the proper conduct of telecommunications services.

*Termination*

The licensor may at any time revoke or terminate the license upon the provision of 30 days' notice if (i) the licensee fails to perform any of its obligations, including timely payments, under the license, (ii) the licensee breaches the terms and conditions of the license, including quality standards, (iii) the licensee becomes bankrupt or otherwise insolvent, (iv) the licensee transfers the license to a third party or (v) such revocation is deemed to be in the public interest.

*Renewal*

The licenses are renewable for additional 10-year periods at a time at the discretion of the licensor, on suitably revised terms and conditions as the licensor may determine, provided that the licensee is not in default or have not committed any breach of any terms and conditions of the license.

*Expropriation*

The licensor has the right to take over the entire services and network of the licensee or revoke, terminate or suspend the license in the interest of national security or in the event of a national emergency, war or similar type of situation. The licensor may also keep any area out of the licensee's zone of operations if security considerations so require.

***Our New Cellular Licenses***

**Cellular License for Mumbai**

*General*

Our license to provide cellular mobile telephone services in the metropolitan city of Mumbai is valid for an initial term of 20 years upto September 27, 2021.

This license has been issued on a non-exclusive basis. The Government has the right to grant additional licenses to private operators, without limit as to number, after recommendations from the TRAI as to the timing and the terms of entry of a new operator.

*Equity Ownership*

The total foreign equity interest in the licensee company shall not exceed 49% of the total issued equity. Any change in the shareholding structure of the licensee company must be approved by the licensor.

*Tariff Rates*

The tariff that may be charged by a cellular operator is governed by TRAI. TRAI has prescribed a standard tariff plan that must be offered by all cellular operators. The standard package for circles provides: a monthly rental of Rs.475 with incoming and outgoing call charges at Rs.4.00 per minute per 30 seconds duration, with a one-time installation charge of Rs.1200 and a non-interest bearing refundable security deposit of Rs.2000. In addition to the tariff plan prescribed by the TRAI, the cellular operators have the flexibility to offer other tariff plans to their subscribers. For further details, see "Indian Telecommunications - Cellular Services".

*Technology*

The cellular technology, which shall always be digital, should be based on standards issued by International Telecommunication Union or Telecom Engineering or any other International Standards organisations or bodies.

Any digital technology which has been utilized to provide satisfactory services over a continuous period of one year to a subscriber base of 100,000 or more anywhere in the world shall be permissible for use regardless of its changed / updated version.

*Entry Fee and License Fee*

Based on a bidding process, a one time entry fee of Rs.2,036.6 million has been paid by Bharti Cellular to obtain this license. In addition the licensee is required to pay a license fee annually at the rate of 12% of AGR . This license fee is payable if limited mobility services using WLL is permitted. However, if such limited mobility services are prohibited, then the applicable license fee will be 15% of AGR. This license fee includes contribution towards universal service obligation, research and development, administration and regulation. This license fee has to be paid quarterly in advance to the Government with quarter-to-quarter adjustments.

*Frequency Usage*

In addition to the license fee described above, the licensee is required to pay a separate license fee and royalty charges to WPC for frequency and spectrum usage. The WPC charges are 2% of AGR for the use of frequency spectrum upto 4.4 MHz. For frequency spectrum upto 6.2 MHz, the service providers are required to pay an additional charge of 1% of AGR. Additional royalty for use of spectrum for point to point links and access links is also payable, as specified by the WPC.

*Interconnection*

The license permits interconnection with other telecommunication service providers in the same service area for the purpose of only terminating traffic of each other and on the terms mutually agreed between the parties. In the case of outgoing calls from the licensee's network, the licensee must pay 95% of MTNL's or BSNL's charges for calls routed through either MTNL's or BSNL's fixed-line network. The licensees bill their customers for airtime and in addition are permitted to pass the MTNL or BSNL charges to their subscribers, without adding any mark-up. The licensees bear the risk of non-collection of such charges from their subscribers. In the case of incoming calls to their network, the licensees are not entitled to receive any portion of MTNL's or BSNL's charges for calls originating outside of licensees' network. In turn, the licensees are not permitted to impose any charge on their customers for such incoming calls other than airtime charges.

*Transferability*

The licensee shall not, without the prior written consent of the licensor, either directly or indirectly, assign or transfer its rights in any matter whatsoever under the license to a third party or enter into any agreement for sub-licensing or partnership relating to any subject matter of the license.

*Guarantee*

Prior to signing the license agreement, the licensee was required to furnish a financial bank guarantee for Rs.500 million and a performance bank guarantee for Rs.200 million. The amount of the financial bank guarantee will subsequently be revised to be the equivalent of the estimated sum payable annually towards the license fee and other dues. The licensee shall be permitted to reduce the value of the performance bank guarantee by 50% after the coverage criteria prescribed in the license is fulfilled.

*Set Off*

In the event any sum of money or claim becomes recoverable from or payable by the licensee to the licensor in respect of this license or in any other manner, such money or claim can be deducted or adjusted against any amount or sum of money then due or which at any time thereafter may become due to the licensee under the license or any other agreement or contract with the licensor.

*Modification*

The terms and conditions of the license may be modified at any time by the licensor if it is deemed necessary or expedient to do so in the public interest or in the interest of the security of the state or for the proper conduct of telecommunications services.

*Penalties*

The licensor has the right to impose penalties subject to a maximum of Rs.10 million if the services are not started within one year from the date of signing of the license agreement.

*Termination*

The licensor may at any time revoke or terminate the license upon the provision of 360 days' notice if (i) the licensee fails to perform any of its obligations, including timely payments, under the license, (ii) the licensee breaches the terms and conditions of the license, including quality standards, (iii) the licensee goes into liquidation or ordered to be wound up, (iv) the licensee transfers the license to a third party, (v) the licensee fails to rectify, within the time prescribed, any defect as may be pointed out, (vi) the licensee is recommended by TRAI for termination of license due to non-compliance of the terms and conditions of the license, or (vii) such revocation is deemed to be in the public interest.

*Renewal*

The licensor may extend, if deemed expedient, the period of the license by ten years at one time upon the request of the licensee (provided such request is made during the $19^{th}$ year of the license period) on mutually agreed terms.

*Suspension*

The licensor has the right to suspend the license in whole or in part, at any time, if in the opinion of the licensor it is necessary or expedient to do so in the public interest, in the interest of national security or for the proper conduct of the service. No license fees is payable when the license is suspended.

*Expropriation*

The licensor has the right to take over the entire services and networks or revoke, terminate or suspend the license in the interest of national security or in the event of a national emergency, war or low intensity conflict type of situations.

**Cellular licenses for Maharashtra, Gujarat, Haryana, Uttar Pradesh (West), Madhya Pradesh, Kerala and Tamil Nadu**

*General*

Our licenses to provide cellular mobile telephone services in the circles of Maharashtra, Gujarat, Haryana, Uttar Pradesh (West), Madhya

Pradesh, Kerela and Tamil Nadu are held by Bharti Cellular. Each license contain similar terms and is valid for an initial term of twenty years upto September 27, 2021.

These licenses have been issued on a non-exclusive basis. The Government has the right to grant additional licenses to private operators, without limit as to number, after recommendations from the TRAI as to the timing and the terms of entry of a new operator.

*Equity Ownership*

The total foreign equity interest in the licensee company shall not exceed 49% of the total issued equity. Any change in the shareholding structure of the licensee company must be approved by the licensor.

*Tariff Rates*

The tariff that may be charged by a cellular operator is governed by TRAI. TRAI has prescribed a standard tariff plan that must be offered by all cellular operators. The standard package for circles provides: a monthly rental of Rs.500 with incoming and outgoing call charges at Rs.4.50 per minute per 30 seconds duration, with a one-time installation charge of Rs.1200 and a non-interest bearing refundable security deposit of Rs.2000. In addition to the tariff plan prescribed by the TRAI, the cellular operators have the flexibility to offer other tariff plans to their subscribers. For further details, see “Indian Telecommunications - Cellular Services”.

*Technology*

The cellular technology, which shall always be digital should be based on standards issued by International Telecommunication Union or Telecom Engineering or any other International Standards organisations/bodies.

Any digital technology which has been utilized to provide satisfactory services over a continuous period of one year to a subscriber base of 100,000 or more anywhere in the world shall be permissible for use regardless of its changed / updated version.

*Entry Fee and License Fees*

The following table enumerates one time entry fee paid by Bharti Cellular, pursuant to a bidding process for acquiring the cellular licenses in respect of each of the following circles:

| **Circle** | **One time entry fee (in Rs. millions)** |
|---|---|
| *Category A* | |
| Maharashtra | 1,890 |
| Gujarat | 1,090 |
| Tamil Nadu | 790 |
| *Category B* | |
| Kerala | 405 |
| Uttar Pradesh (West) | 305 |
| Haryana | 215 |
| Madhya Pradesh | 175 |
| **Total** | **4,869** |

In addition, the licensee is required to pay license fee annually at the rate of 12% of AGR in case of Category A circles and 10% of AGR in case of Category B circles. This license fee rate is applicable only if existing or future fixed-line operators are permitted to provide limited mobility services using WLL. However, if such limited mobility services are prohibited, then the applicable license fee will be 15% of AGR. This license fee has to be paid quarterly in advance to the Government with quarter-to-quarter adjustments.

*Frequency Usage*

In addition to the license fee described above, the licensee is required to pay a separate license fee and royalty charges to WPC for frequency and spectrum usage. The WPC charges are 2% of AGR for the use of frequency spectrum upto 4.4 MHz. For frequency spectrum upto 6.2 MHz, the service providers are required to pay an additional charge of 1% of AGR. Additional royalty for use of spectrum for point to point links and access links is also payable, as specified by the WPC.

*Interconnection*

The license permits interconnection with other telecommunication service providers in the same service area for the purpose of only terminating traffic of each other and on the terms mutually agreed between the parties. In the case of outgoing calls from the licensee’s network, the licensee must pay 95% of MTNL’s or BSNL’s charges for calls routed through either MTNL’s or BSNL’s fixed-line network. The licensees bill their customers for airtime and in addition are permitted to pass the MTNL or BSNL charges to their subscribers, without adding any mark-up. The licensees bear the risk of non-collection of such charges from their subscribers. In the case of incoming calls to their network, the licensees are not entitled to receive any portion of MTNL’s or BSNL’s charges for calls originating outside of licensees’ network. In turn, the licensees are not permitted to impose any charge on their customers for such incoming calls other than airtime charges.

*Transferability*

The licensee shall not, without the prior written consent of the licensor, either directly or indirectly, assign or transfer its rights in any matter whatsoever under the license to a third party or enter into any agreement for sub-licensing or partnership relating to any subject matter of the license.

*Guarantees*

Prior to signing the license agreement, the licensee was required to furnish a financial bank guarantee for Rs.500 million for each Category A circle and Rs.250 million for each Category B circle. The licensee has also given a performance bank guarantee of Rs.200 million for each

Category A circle and Rs.100 million for each Category B circle before signing the license agreement. The amount of the financial bank guarantee will subsequently be revised to be the equivalent of the estimated sum payable annually towards the license fee and other dues. The licensee shall be permitted to reduce the value of the performance bank guarantee by 50% after the coverage criteria prescribed in the license is fulfilled.

*Set Off*

In the event any sum of money or claim becomes recoverable from or payable by the licensee to the licensor in respect of this license or in any other manner, such money or claim can be deducted or adjusted against any amount or sum of money then due or which at any time thereafter may become due to the licensee the licensee under the license or any other agreement or contract with the licensor.

*Modification*

The terms and conditions of the license may be modified at any time by the licensor if it is deemed necessary or expedient to do so in the public interest or in the interest of the security of the state or for the proper conduct of telecommunications services.

*Penalties*

The licensor has the right to impose penalties subject to a maximum of Rs.10 million if the services are not started within one year from the date of signing of the license agreement.

*Termination*

The licensor may at any time revoke or terminate the license upon the provision of 60 days' notice if (i) the licensee fails to perform any of its obligations, including timely payments, under the license, (ii) the licensee breaches the terms and conditions of the license, including quality standards, (iii) the licensee goes into liquidation or ordered to be wound up, (iv) the licensee transfers the license to a third party, (v) the licensee fails to rectify, within the time prescribed, any defect as may be pointed out, (vi) the licensee is recommended by TRAI for termination of license due to non-compliance of the terms and conditions of the license, or (vii) such revocation is deemed to be in the public interest.

*Renewal*

The licensor may extend, if deemed expedient, the period of the license by ten years at one time upon the request of the licensee (provided such request is made during the 19th year of the license period) on mutually agreed terms.

*Suspension*

The licensor has the right to suspend the license in whole or in part, at any time, if in the opinion of the licensor it is necessary or expedient to do so in the public interest, in the interest of national security or for the proper conduct of the service. No license fees is payable when the license is suspended.

*Expropriation*

The licensor has the right to take over the entire services and networks or revoke, terminate or suspend the license in the interest of national security or in the event of a national emergency, war or low intensity conflict type of situations.

**Madhya Pradesh Fixed-line License**

*General*

Bharti Telenet holds the right to establish, maintain and operate a fixed-line telephone network in the states of Madhya Pradesh and Chattisgarh pursuant to a license that is valid for 15 years from February 28, 1997. The DoT will continue to operate its fixed-line telephone service within the same geographical area.

*Equity Ownership*

The total foreign equity interest in Bharti Telenet shall not exceed 49% of its total issued equity.

*Tariff Rates*

The tariff that may be charged by a fixed- line service operator is governed by the TRAI. Although Bharti Telenet has the flexibility in setting its tariffs, it is required to offer its customers a standard tariff plan as prescribed by the TRAI. The standard tariff plan provides for a registration charge of Rs.500 to Rs.2,000, a one-time installation charge of Rs.300 to Rs.800, a refundable, non-interest bearing security deposit equivalent to 12 month subscription fee and a monthly subscription fee varying between Rs.70 to Rs.310. In addition, Rs.0.80 to Rs.1.20 may be charged for outgoing calls for a local call of 3 minutes. Bharti Telenet may set its own rate structure so long as it complies with the ceiling rates stipulated by TRAI. For details, please see "Business Section – Fixed Line Services".

*Technology*

All fixed-line telephone exchanges and transmission systems must be based on digital technology. Only those new technologies may be utilised for which either complete International Telecommunication Union standards exist or which has been utilized elsewhere to provide satisfactory services over a continuous period of one year to a subscriber base of not less than 100,000 subscribers.

*License Fee*

Effective August 1, 1999, Bharti Telenet was required to pay the Government a license fee at the rate of 15% based on the annual gross revenue (excluding interconnection charges and service tax). The rate has recently been revised to10% of annual gross revenue (excluding interconnection charges and service tax) with retrospective effect from August 1, 1999. This license fee has to be paid quarterly in advance to the Government with quarter to quarter adjustments.

*Network build out obligations*

Bharti Telenet is required to complete installation of all necessary equipment and commence its fixed-line telephone services so as to meet specified targets for DELs and VPTs. A VPT is the first public telephone in a village that did not have any telephone and a DEL is a connection between a telephone and a terminal exchange. Bharti Telenet has committed to provide 50,000 DELs at the end of twelve months, 100,000 DELs at the end of 24 months and 150,000 DELs at the end of 36 months after the grant of the license. Bharti Telenet must also provide a minimum of 11% of DELs as VPTs until all villages in Madhya Pradesh are covered by VPTs. Bharti has furnished a bank guarantee in an amount equal to Rs.500 million in connection with its build out obligation.

*Interconnection*

Bharti Telenet entered into an interconnection agreement with BSNL as a condition to its obtaining the fixed-line license. The agreement requires Bharti Telenet to pay an initial registration fee per transmission link, make annual rent and guarantee payments for leased transmission links, and share charges generated by outgoing calls. In the case of outgoing calls from Bharti Telenet's network, Bharti Telenet is permitted to retain:

- 60% of revenues for domestic long distance calls (including inter-state calls and any intra-state calls terminating outside the local area where the call was made and not carried exclusively on Bharti Telenet's network); and
- 45% of revenue for international calls.

Bharti Telenet does not receive any revenue for calls from the fixed-line networks terminating on its network and Bharti Telenet cannot impose any charge on its customers for such calls. It is not required to enter into any interconnection arrangement with respect to intra-circle calls that it carries exclusively on its network and is, therefore, entitled to retain 100% of the revenues from such calls.

Bharti Telenet is required to pay various other charges for interconnection with BSNL's telephone exchange. BSNL will pay liquidated damages to Bharti Telenet if it fails to make available interconnect capacity as agreed.

*Other Services*

Bharti Telenet may, under its existing license, provide limited mobility services using WLL. It may not engage in the provision of value-added services and paging without obtaining a separate license from the Government. Bharti Telenet shall not be engaged in the business of production of telecommunications equipment associated with the provision of fixed-line services. However, it may participate in such businesses through other registered companies.

*Transferability*

Bharti Telenet shall not assign or transfer its rights in any manner whatsoever under the license to a third party or enter into any agreement with any third party for sub-licensing, sub-leasing or partnership relating to any subject matter of the license.

*Guarantees*

Bharti Telenet is required to deposit and maintain a performance bank guarantee in an amount determined on the basis of number of telephone lines installed by Bharti Telenet, for a period of at least three years (extendable by one year) from the date of the license as a performance security for its obligations under the license. In addition, Bharti Telenet must maintain a financial bank guarantee in an amount to be determined yearly as security for payments due to the Government.

*Modification*

The terms and conditions of the license may be modified at any time by the Government if it is deemed necessary or expedient to do so in the interest of the general public, for security or for the proper conduct of telecommunications services.

*Termination*

The Government may at any time revoke or terminate the license upon the provision of 180 days' notice if Bharti Telenet (i) fails to commission and deliver fixed-line services to the extent agreed upon in terms of the license within a period of twelve months from the grant of the license, (ii) fails to perform any other obligations under the license, including timely payment of amounts due to the Government or (iii) transfers the license to a third party. The license may be terminated upon the provision of 90 days' notice if Bharti Telenet becomes bankrupt or otherwise insolvent. In the event the license is terminated or not extended, the Government may ensure the continuity of the service in the region either by taking over the operations of Bharti Telenet's fixed-line telephone network or by issuing a new license to another private operator to take over the network of Bharti Telenet and operate it. In each of these events, Bharti Telenet shall receive commercially reasonable compensation for its assets.

*Renewal*

The license is renewable for additional 10-year periods at a time at the discretion of the licensor, on suitably revised terms and conditions as the Government may determine, provided that Bharti Telenet is not in default or has not committed any breach of any terms and conditions of the license.

*Expropriation*

The licensor has the right to take over Bharti Telenet's services and network or revoke, terminate or suspend the license in the interest of national security or in the event of a national emergency, war or similar type of situation. The Government may also keep any area out of Bharti Telenet's zone of operations if security considerations so require.

**Fixed-line Licenses for Delhi, Tamil Nadu, Karnataka and Haryana**

*General*

Bharti Telenet holds the right to establish, maintain and operate a fixed-line telephone network in the states of Delhi, Tamil Nadu, Karnataka and Haryana pursuant to licenses that are valid for 20 years from October 29, 2001 for Delhi, Tamil Nadu and Karnataka and from October 8, 2001 for Haryana. The DoT will continue to operate its fixed-line telephone service within the same geographical area.

*Equity Ownership*

The total foreign equity interest in Bharti Telenet at any time during the license period may not exceed 49% of its total paid-up equity. Any change in the shareholding structure of Bharti Telenet must be approved by the licensor.

*Tariff Rates*

The tariff that may be charged by a fixed line service operator is governed by TRAI. Although Bharti Telenet has the flexibility in setting its tariffs, it is required to offer its customers a standard tariff plan as prescribed by the TRAI. The standard package provides for a registration charge of Rs.500 to Rs.2,000, a one-time installation charge of Rs.300 to Rs.800, a refundable, non-interest bearing security deposit equivalent to 12 month subscription fee and a monthly subscription fee varying between Rs.70 to Rs.310. In addition, Rs.0.80 to Rs.1.20 may be charged for outgoing calls for a local call of 3 minutes. Bharti Telenet may set its own rate structure so long as it complies with the ceiling rates stipulated by TRAI. For further details, see "Business Section – Fixed-Line Services".

*Technology*

Bharti Telenet shall ensure adherence to the national fundamental plan (describing numbering and routing plan as well as transmission plan) issued by the DoT and technical standards as prescribed by the licensor or TRAI. Only those technologies may be utilized that meet the relevant International Telecommunication Union/Telecommunication Engineering Centre / industry standards. For new technologies where no standards have been determined, Bharti Telenet is required to seek the prior approval of the licensor.

*Entry Fee and License Fee*

Bharti Telenet has paid a one-time entry fee of Rs.500 million each for Delhi and Tamil Nadu circles, Rs.350 million for Karnataka circle and Rs.100 million for Haryana circle. In addition, for these circles Bharti Telenet has to pay an annual license fee in the form of revenue share calculated on the annual gross revenue (excluding access charges, service tax and sales tax actually paid to the Government if the revenue included the component of service tax) at the rate of 12% for the Delhi, Tamil Nadu and Karnataka circles and at the rate of 10% for the Haryana circle. An additional revenue share of 2% of such adjusted annual gross revenue earned from WLL subscribers shall be payable as spectrum charge, inclusive of royalty for spectrum. The license fee has to be paid quarterly in advance to the Government with quarter to quarter adjustments.

*Network Build Out Obligations*

Bharti Telenet is required to fulfill the following minimum network roll out obligations:

| Phase | Time period for completion from date of signing | Cumulative percentage of coverage in terms of Point of Presence(POP) to be achieved at SDCA level at the end of each phase |
|---|---|---|
| I | 2 years | 15% |
| II | 3 years | 40% |
| III | 5 years | 80% |
| IV | 7 years | 100% |

*Interconnection*

Bharti Telenet is permitted to interconnect with all service providers within their circle. The charges for interconnection shall be based on the mutual agreement between the service providers.

*Other Services*

Under its license, Bharti Telenet may engage in providing services that cover collection, carriage, transmission and delivery of voice or non-voice messages. Bharti Telenet is allowed to provide limited mobility services using WLL and is free to carry intra-circle long distance traffic. Bharti Telenet shall not engage in any value added services requiring a separate license from the Government.

*Transferability*

Bharti Telenet shall not without the prior written consent of the licensor, either directly or indirectly, assign or transfer its rights in any manner whatsoever under the license to a third party or enter into any agreement with any third party for sub-licensing, sub-leasing or partnership relating to any subject matter of the license.

*Guarantee*

Bharti Telenet is required to deposit and maintain three performance bank guarantees and one financial bank guarantee for each circle for the amounts as mentioned below :

(Rs. millions)

| Circles | Performance Bank Guarantees | | | Financial Bank Guarantees |
|---|---|---|---|---|
| | Guarantee - 1 | Guarantee - 2 | Guarantee - 3 | |
| Delhi | 400 | 600 | 1000 | 200 |
| Tamil Nadu | 400 | 600 | 1000 | 200 |
| Karnataka | 280 | 420 | 700 | 200 |
| Haryana | 80 | 120 | 200 | 200 |

The performance bank guarantees shall remain valid for a period of three, five and seven years, respectively. The performance bank guarantees shall be released in phases upon fulfillment of the network roll-out obligations. Bharti Telenet must submit a financial bank guarantee as indicated in the table above for each circle before the commencement of services and the amount of financial bank guarantee will subsequently be revised to be the equivalent of the estimated sum payable annually towards the license fee and other dues. The amount of the financial bank guarantee is subject to periodic review by the licensor.

*Set Off*

In the event any sum of money or claim becomes recoverable from or payable by Bharti Telenet to the licensor in respect of this license or in any other manner, such money or claim can be deducted or adjusted against any amount or sum of money then due or which at any time thereafter may become due to Bharti Telenet under this license or any other agreement or contract with the licensor.

*Modification*

The terms and conditions of the license may be modified at any time by the licensor if it is deemed necessary or expedient to do so in the public interest or in the interest of the security of the state or for the proper conduct of telecommunications services.

*Termination*

The licensor may at any time revoke or terminate the license upon the provision of 60 days' notice if Bharti Telenet (i) fails to commission or deliver the service within the time period specified in the license, (ii) fails to perform any obligation under the license, (iii) fails to rectify, within the time prescribed, any defect, (iv) goes in liquidation or is ordered to be wound up, or (v) is recommended by TRAI for termination of license for non compliance of the terms and conditions of the license.

*Renewal*

The license is renewable for additional ten year periods at a time, on such terms and conditions as the licensor may, at its sole discretion determine.

*Suspension*

The licensor has the right to suspend the license in whole or in part, at any time, if in the opinion of the licensor it is necessary or expedient to do so in public interest, in the interest of national security or for the proper conduct of the service. No license fees is payable when the license is suspended.

*Expropriation.*

The licensor has the right to take over Bharti Telenet's services and network or revoke, terminate or suspend the license in the interest of national security or in the event of a national emergency, war or low intensity conflict or similar type of situation. The licensor may also keep any area out of Bharti Telenet's areas of operations if security considerations so require.

**National Long Distance Services**

Bharti Telesonic has entered into a license agreement with the DoT dated November 29, 2001 on a non-exclusive basis, to install, operate and maintain national long distance services within the territorial boundaries of India. The license is valid for 20 years, and extendable by periods of 10 years upon request by the licensee during the 19th year of the license period on mutually agreeable terms. The license provides that there shall be no change in the Indian and foreign promoters or their equity participation unless permitted by DoT in the interest of service.

*Equity ownership*

The total foreign equity interest in Bharti Telesonic shall not exceed 49% of total paid up equity. Any change in the shareholding structure of Bharti Telesonic must be approved by the DoT. Currently, Bharti Tele-Ventures and Bharti Telenet own 70% and 30%, respectively, of the outstanding share capital of Bharti Telesonic.

*Equity Capital*

Minimum paid-up equity capital of Bharti Telesonic is required to be Rs.2.50 billion. The current equity capital of Bharti Telesonic is Rs. 2.50 billion.

*Networth of Promoters & Experience*

Combined networth of the shareholders who have at least 10% of the equity stake of Bharti Telesonic is required to be Rs.25 billion. A shareholder with at least 30% of the total equity in Bharti Telesonic must have experience in the telecommunications sector.

*License Fee and Bank Guarantee*

- A one time non-refundable entry fee of Rs.1 billion was required to be furnished before signing of the license.
- In addition, four bank guarantees of Rs.1 billion each are required to be furnished before entering into the license agreement. The bank guarantees will be released on completion of each phase in the manner described below. The phase will be considered completed on fulfillment of requisite network roll-out obligations by establishing point of presence in LDCAs.

| Cumulative Rollout | Time (Years) | Completion of | Cumulative percentage of coverage of uneconomic & remote areas | Amount (in Rs. billion) |
|---|---|---|---|---|
| 15% | 2 | Phase I | 2% | 1 |
| 40% | 3 | Phase II | 4% | 1 |
| 80% | 4 | Phase III | 7% | 1 |
| 100% | 5-7 | Phase IV | All | 1 |

In addition to the entry fee, the license fee shall be based on a revenue share formula, with 10% plus prescribed contributions from time to time payable towards a universal service obligation fund with a total cap of 15% of annual revenue share. Provisionally at present, the rate of universal service obligation is 5% of the annual revenue share.

Bharti Telesonic is required to submit a financial bank guarantee on or before one year after the date of signing the license agreement or prior to the commencement of service, whichever is earlier. The financial bank guarantee shall be valid for a period of one year and its amount shall be equivalent to the estimated sum payable annually towards the license fee and other dues not otherwise securitised. Initially, the financial bank guarantee shall be for an amount of Rs. 200 million. The fees and royalties for the use of spectrum and also for wireless telegraphy equipment shall be separately submitted for one year, extendable from time to time.

*Tariff Rates*

Bharti Telesonic will charge tariffs for service as per the TRAI Tariff orders / regulations / directions issued in this regard from time to time.

*Technology*

Bharti Telesonic will ensure adherence to the National Fundamental Plan and technical standards as prescribed from time to time, by the DoT in this respect. In case of new technologies, where no standards have been determined, Bharti Telesonic will seek the approval of the DoT before deploying them and in such cases the standards specified by the TEC / ITU or such technologies, successful in use internationally for at least one year for one hundred thousand subscribers, shall be preferred for adoption as approved technology. Bharti Telesonic is obligated to provide, without any delay, tracing facility to trace obnoxious or malicious calls, messages or communications transported through its equipment and network.

*Interconnection*

It is mandatory for basic service providers, cellular mobile service providers, cable service providers, to provide interconnection to national long distance service providers whereby the subscribers could have a free choice to make inter-circle / international long distance calls through the national long distance service provider. Such service providers are required to make their own suitable arrangements/agreements for leased lines with access providers for last mile. Further the licensee is required to enter into suitable agreements with other providers for interconnection. The charges for interconnection with other networks for origination, termination and carriage of calls shall be based on mutual agreements based on mutual agreements between the service provider subject to restrictions issued from time to time by TRAI under the TRAI Act, 1997.

*Transferability*

Bharti Telesonic shall not, without the prior written consent of the DoT, either directly or indirectly, assign, transfer or create any sub-lease, partnership or third party interest in the license in any manner.

*Modification*

The terms and conditions of the license may be modified at any time by the DoT if it is deemed necessary or expedient to do so in the interest of the general public, for security or for the proper conduct of telecommunications services.

*Termination*

The DoT reserves the right to suspend the operation of the license, if it is necessary or expedient to do so in public interest or in the interest of the security of the state or for the proper conduct of service. The DoT may by a written notice of 30 days to Bharti Telesonic at its registered office, terminate its license if Bharti Telesonic : (i) fails to commission or deliver the service within the time period specified in the license, (ii) fails to perform any obligation under the license, (iii) fails to rectify, within the time prescribed, any defect, (iv) goes in liquidation or is ordered to be wound up, or (v) is recommended by TRAI for termination of license for noncompliance of the terms and conditions of the license

*Expropriation*

The DoT has the right to take over Bharti Telesonic's services and network or revoke, terminate or suspend the license in the interest of national security or in case of emergency or war or low intensity conflict or any other eventuality. The DoT may also keep any area out of Bharti Telesonic's zone of operations if security considerations so require.

We have obtained all material approvals for carrying on the national long distance business.

***License agreements for the provision of Internet services***

| Licensee | Service Area | Effective from | Valid upto |
|---|---|---|---|
| Bharti BT Internet | Territory of India (Category A) | March 4, 1999 | March 3, 2014 |
| Bharti Telenet | Madhya Pradesh (Category B) | March 3, 1999 | March 2, 2014 |
| Bharti Comtel | Haryana (Category B) | February 1, 2000 | January 31, 2015 |
| Bharti Telesonic | Territory of India (Category A) | October 10, 2001 | October 9, 2016 |
| Bharti Cellular | Territory of India (Category A) | October 10, 2001 | October 9, 2016 |
| Bharti Aquanet | Territory of India (Category A) | October 10, 2001 | October 9, 2016 |

These licenses have been issued on a non-exclusive basis. Other providers may be granted a license for the same service area at the discretion of the Government. The DoT itself or through a designated public authority, has the right to operate in any or all the above service areas.

*Equity Ownership*

The total foreign equity interest in the licensee companies is permitted upto 74% of the total issued equity in case the licensee company owns an international gateway and 100% of the total issued equity in case the licensee company does not own an international gateway.

*Tariff Rates*

The licensee is free to fix the tariffs it proposes to charge from its subscribers. However, TRAI has been empowered to review and fix a tariff at any time during the validity period of the license.

*License Fee*

For those service providers who obtain licenses prior to November 1, 2003, license fee upto October 31, 2003 has been waived. Effective November 1, 2003, a nominal license fee of Re. 1 per annum will become payable from November 1, 2003.

*Guarantee*

Performance bank guarantees of Rs.20 million for Category A service area and Rs.2 million for each Category B service area are required to be maintained with the DoT.

| Licensee | Service Area | Effective from | Valid upto |
|---|---|---|---|
| Bharti BT Limited | Territory of India | September 15, 1994 | September 14, 2004 |

This license has been issued on a non-exclusive basis. Other providers may be granted license for the same service area at the discretion of the Government.

*Equity Ownership*

The total foreign equity interest in the licensee companies shall not exceed 49% of the total issued equity.

*Tariff Rates*

The approved tariff is to be charged from the VSAT subscribers. However, for charging lower tariffs the DoT's approval is not required.

*License Fee*

A license fee of Rs.0.05 million per annum per VSAT subject to a minimum of Rs.10 million is to be paid per year for the first two years and Rs.15 million for the third year. Minimum license fee will be reviewed thereafter. In addition, separate license fee and royalty shall be paid towards utilization of appropriate frequency spectrum.

*Guarantee*

Performance bank guarantees of Rs.5 million has been submitted to the DoT.

# DESCRIPTION OF CERTAIN INDEBTEDNESS

The following is a summary of important terms of certain indebtedness of the Company and its subsidiaries.

**Bharti Cellular Limited**

Rs.1 billion 13.5% tax-free secured non-convertible debentures

On March 23, 1998 Bharti Cellular and Industrial Development Bank of India ("IDBI") entered into a debenture subscription agreement for the subscription of up to Rs.1 billion aggregate principal amount of tax-free secured non-convertible debentures by IDBI. The debentures rank *pari passu* with Bharti Cellular's other indebtedness to IDBI, Standard Chartered Grindlays Bank Limited ("SC Grindlays") (formerly ANZ Grindlays Bank Limited) and Deutsche Bank described below. As of December 31, 2001, Rs.666.67 million aggregate principal amount of debentures were outstanding.

Bharti Cellular is required to use the proceeds of the debentures in connection with its cellular operations in Delhi. The debentures must be redeemed according to a repayment schedule that provides for semi-annual payments to be made beginning April 1, 2001 and ending October 1, 2003. The debentures may be redeemed prematurely by Bharti Cellular, subject to prior approval of IDBI. Further, IDBI may at its discretion vary the redemption schedule on such terms and conditions as decided by it. IDBI also has the option to accelerate the repayment schedule at its sole discretion, which option shall ordinarily be exercised on or after April 1, 2002. The debentures bear interest at the rate of 13.5% per annum, at quarterly rests, plus applicable interest tax. The debentures are payable in semi-annual instalments.

Bharti Cellular has agreed that it will increase the rate of interest payable on the debentures as mutually agreed between it and IDBI during the term of the debentures. The above interest rates will apply for so long as the debentures qualify for tax treatment under Section 10(23G) of the Indian Income Tax Act of 1961. In the event that such benefit of the tax treatment is withdrawn from or denied to IDBI for any reason beyond the control of IDBI, Bharti Cellular will have the option to compensate IDBI for any loss in the pre-tax yield on the debentures or to redeem the outstanding debentures within six months from the date that it receives notice from IDBI that the benefits under Section 10(23G) are no longer available.

The debenture subscription agreement contains certain customary affirmative covenants including among other things, to maintain certain debt-equity and other financial ratios, and an undertaking from the promoters to invest in additional equity of Bharti Cellular to ensure the maintenance of a certain debt to equity ratio. In addition, Bharti Cellular has agreed to certain negative covenants that restrict the ability of Bharti Cellular to pay dividends, incur additional indebtedness, undertake any new project or substantially expand its cellular operations in Delhi, enter into agreements for the appointment of sole purchasing or selling agents, incur additional indebtedness, issue additional share capital or change its capital structure, make loans or guarantee other indebtedness, sell, lease, transfer or create liens on its assets, merge with or acquire any interest in another entity, create any subsidiary, or permit any company to become its subsidiary, make any investments in shares, deposits or prepay any of its other indebtedness.

The debenture subscription agreement contains customary events of default, including a provision that the termination of the license for cellular mobile telephone services in Delhi constitutes an event of default under the debenture subscription agreement. The debentures are secured on *pari passu* basis by (1) a charge over all present and future movable and immovable property of Bharti Cellular, which may not be sold or disposed of (2) an assignment of all of Bharti Cellular's rights under certain insurance and other contracts and (3) a pledge of all of the Bharti Cellular's shareholding in Welldone Impex (India) Pvt. Ltd. ("WIPL") together with a grant to IDBI of the right to attend all meetings of the members of WIPL and vote the pledged shares in an event of default in any manner IDBI may choose in its absolute discretion and also to sell shares in an event of default. In addition, WIPL has undertaken not to transfer or create any encumbrance over Bharti Cellular's corporate offices at D-184, Okhla Industrial Area Phase-I, New Delhi.

The debenture subscription agreement provides that IDBI may appoint one nominee director to Bharti Cellular's Board of Directors and that such director may be a member of the management or other board committees. The debenture subscription agreement also provides that Bharti Cellular may remove any person exercising substantial powers of management over its affairs as of the date of the agreement only with the prior approval of the IDBI. In the event of the default by Bharti Cellular in the payment of any dues by IDBI, the Company shall, as and when required by IDBI, appoint or change to its satisfaction technical, financial and executive staff of proper qualifications and experience for key posts in Bharti Cellular. In the event of default or in the opinion of IDBI the business of Bharti Cellular is being conducted in a manner opposed to public policy or prejudicial to IDBI's interest, IDBI has the right to review the management organisation of Bharti Cellular and to require it to restructure management as IDBI considers necessary. In the event of default, IDBI may appoint or remove directors on the Board of Director of Bharti Cellular.

If IDBI offers the debentures for sale to the public, Bharti Cellular has agreed to arrange for the debentures to be listed on one or more recognized stock exchanges in India and to bear all related expenses.

*Rs.375 million loan from Deutsche Bank*

On March 18, 1998 Bharti Cellular entered into a loan agreement and an addendum, to the loan agreement on August 26, 1998 with Deutsche Bank for providing loan of Rs.375 million bearing interest at the rate of 14.5% p.a. plus interest tax which was subsequently reduced to 12.75% and in case of default in payment, an interest of 2% on the overdue amount from the due date up to the date of actual payment. The remaining principal amount of the loans to be repaid by Bharti Cellular in four half yearly instalments commencing October 2002.

Bharti Cellular is not allowed to prepay all or part of the outstanding amounts, provided that, in case the tax benefit under Section 10 (23G) of the Income Tax Act, 1961, is withdrawn or ceases to exist, then Bharti Cellular may prepay in whole or in part an amount not less than Rs.50 million. As of December 31, 2001 Rs.340 million was outstanding under this loan.

The loan agreement contains certain customary negative covenants which, among other things, restrict the ability of Bharti Cellular to incur additional indebtedness, issue additional share capital or change its capital structure, make any loans or give any guarantee or indemnity to or for the benefit of any person, sell, assign, transfer or otherwise dispose of all or any of its rights in its telecommunications services licenses or the project or any of its assets, present or future, or enter into any transaction which in effect constitutes such a sale, assignment, transfer, surrender or disposal, to enter into any contract with any affiliate or shareholder or subsidiary otherwise than on an arm's length basis, merge or amalgamate or offer any part of its share capital to the public, create or acquire any subsidiary or prepay any of its other indebtedness. Deutsche Bank pursuant to its letter dated October 19, 2001 has given its consent to Bharti Cellular to operate in eight new cellular telecom circles of Mumbai, Maharashtra, Gujarat, Tamil Nadu, Kerala, Haryana, Madhya Pradesh and Uttar Pradesh (West) and for the acquisitions of Bharti Mobitel, Bharti Mobinet and Bharti Mobile. In addition, Bharti Cellular has covenanted to maintain certain financial ratios.

Bharti Cellular has agreed to provide the following security for the loan: (1) an undertaking to assign its Delhi cellular service license (2) undertaking from the shareholders not to dilute their equity shareholding in Bharti Cellular without the prior consent of Deutsche Bank (3) first charge on *pari passu* basis with other term lenders who are subscribers to any debentures of the Company over all the present and future movables of the company under a suitable hypothecation agreement dated January 16, 1997 and (4) a charge on all the amounts credited to various bank accounts maintained by Bharti Cellular. In addition, the agreement provides Deutsche Bank with the right to revise the security package provided in favor of Deutsche Bank to ensure that it is not inferior to security provided to any of the existing lenders to Bharti Cellular in its assets. In addition, the Company has undertaken not to transfer or encumber its Bharti Cellular shares while the loan is outstanding.

*Rs.750 million 13.25% B Series tax-free secured redeemable non-convertible debentures from Standard Chartered Grindlays Bank Limited*

On April 3, 1998, Bharti Cellular and Standard Chartered Grindlays Bank Limited (SC Grindlays) entered into a debenture subscription agreement for the subscription of up to Rs.750 million aggregate principal amount of tax-free secured redeemable non-convertible debentures by SC Grindlays. The debentures rank *pari passu* with Bharti Cellular's other senior debt. As of December 31, 2001, Rs.750 million aggregate principal amount of debentures were outstanding.

Bharti Cellular is required to use the proceeds of the debentures in connection with its cellular operations in Delhi. Bharti Cellular shall redeem the debentures in three equal half- yearly installments commencing April 2003. After 61 months, Bharti Cellular may (with the consent of SC Grindlays), postpone, modify or vary the terms of the debentures, including as to any redemption date and interest rate, provided that if SC Grindlays is not willing to accept such modified terms and conditions, it may continue to hold the debentures on their original terms and conditions. In addition, if any debenture is redeemed prior to its scheduled redemption date resulting in loss in the pre-tax yield to SC Grindlays, Bharti Cellular shall pay additional amounts in respect of that loss.

The debentures bear interest at the rate of 13.25% per annum plus applicable interest tax, payable semi-annually in arrears and an additional interest of 2 % on the amount if Bharti Cellular fails to pay when it becomes due and payable. The above interest rates will apply for so long as the debentures qualify for preferential tax treatment under Section 10(23G) of the Indian Income Tax Act of 1961. In the event that such preferential treatment is withdrawn from or denied to SC Grindlays for any reason, Bharti Cellular will have the option to compensate SC Grindlays for any loss in the pre-tax yield on the debentures or to redeem the outstanding debentures within six months from the date that it receives notice from SC Grindlays that the benefits under Section 10(23G) are no longer available.

The debenture subscription agreement contains certain customary negative covenants which, among other things, restrict the ability of Bharti Cellular to pay dividends, undertake any new project or substantially expand its cellular operations in Delhi, incur additional indebtedness, issue additional share capital or change its capital structure, amend its memorandum and articles of incorporation, modify certain agreements relating to its cellular operations in Delhi, transfer any rights in its license to provide cellular services in Delhi, make capital expenditures outside of Delhi, enter into any partnership, profit sharing or royalty agreement, make loans or guarantee other indebtedness, sell, transfer, assign or create liens on its assets, merge with or acquire any interest in another entity, create or acquire any subsidiary or prepay any of its other indebtedness. SC Grindlays Bank pursuant to its letter dated October 19, 2001 has given its consent to Bharti Cellular to operate in eight new cellular telecom circles of Mumbai, Maharashtra, Gujarat, Tamil Nadu, Kerala, Haryana, Madhya Pradesh and Uttar Pradesh (West) and for the acquisitions of Bharti Mobitel, Bharti Mobinet and Bharti Mobile. In addition, under the debenture subscription agreement Bharti Cellular has covenanted to maintain certain financial ratios.

The debentures are secured on *pari passu* basis by way of (1) a charge over all moveable property of Bharti Cellular and mortgage over immovable properties and hypothecation of all present and future tangible movable assets and monies, securities, investments and instruments, (2) an assignment of all of Bharti Cellular's rights under certain insurance and supply contracts relating to its cellular operations in Delhi, and (3) guarantees from each of the Company and Bharti Telecom in respect of 50% of Bharti Cellular's obligations under the debenture subscription agreement. In addition, the Company has undertaken not to dispose of or encumber its Bharti Cellular shares while the debentures are outstanding.

The debenture subscription agreement also contains customary events of default, including a provision that the termination of the license for cellular services in Delhi constitutes an event of default under the debenture subscription agreement. In the event of default, in addition to the acceleration of the redemption of the debentures, SC Grindlays has the right to review Bharti Cellular's management structure and require Bharti Cellular to restructure its management and constitute management committees with such powers and functions as SC Grindlays considers suitable for the close monitoring of Bharti Cellular's business and operations. In addition in case of default, the terms and conditions of the appointment or re-appointment of Bharti Cellular's Managing Director or any other person holding substantive powers of management, by whatever name called, are subject to the approval of SC Grindlays.

The Company has undertaken to provide additional funds to Bharti Cellular to maintain certain financial ratios of Bharti Cellular. The Company has also undertaken to maintain management control of Bharti Cellular.

*In addition to these facilities, Rs.4 million loan is outstanding from IDBI as on December 31, 2001 on two loan facilities. Each loan facility is of Rs. 2 million with interest rate of 19.9% and 18.0% respectively.*

*Rs.2 billion floating rate loan facility from IDBI*

On October 1, 2001 Bharti Cellular and IDBI entered into a loan agreement for a loan of Rs.2 billion, at a floating interest rate of 375 basis points yield on one year government securities. The interest rate is to be reset at quarterly intervals linked to the yield on one year government securities. Interest is to be paid at quarterly rests, with the first interest payment falling due on January 1, 2002. The loan is repayable in one installment after eighteen months. The agreement, however, provides for a put and call option at the end of 12 months, upon a prior notice of 15 days. Bharti Tele-Ventures has given an undertaking that the loan would be repaid from the net proceeds of this Offering and any debt raised by Bharti Cellular before utilising the proceeds from this Offering or any such debt raised for any other purpose. As of December 31, 2001, Rs.1.9 billion was outstanding under this loan.

This loan would be used to part finance the initial project related expenses for setting up the cellular networks in eight new cellular circles of Haryana, Uttar Pradesh (West), Gujarat, Maharashtra, Mumbai, Madhya Pradesh, Tamil Nadu and Kerala. The loan shall not be utilised for (a) investment in shares, debentures or any stock market transactions and (b) any kind of transaction relating to real estate activities.

The loan together with interest, liquidated damages, premia on prepayment or on redemption, costs, expenses and other monies whatsoever stipulated in the agreement shall be secured by (a) second mortgage and charge on all present and future immovable properties of Bharti Cellular's Delhi circle, (b) second charge by way of hypothecation on movable properties, exceptfor book debts, (c) undertaking to create a first *pari passu* charge on the fixed assets of the borrower in case of default or if the loan is not repaid within 18 months and (d) demand promissory note. Further, Bharti Tele-Ventures has furnished an irrevocable and unconditional corporate guarantee for the due repayment of the loan and the payment of all interest and other monies payable.

Bharti Cellular has agreed that in the event of default, IDBI shall be entitled to appoint and withdraw from time to time a nominee director on the board of directors of Bharti Cellular.

The loan agreement further provides for a charge of 2% per annum by way of liquidated damages and such charge will be levied for defaults in payment of principal interest or other moneys payable under the loan agreement. In case the loan is not repaid within 18 months, the borrower shall be liable to pay interest at the rate of 350 basis points over the minimum term lending rate, at quarterly rests.

*Rs.500 million 11.2% loan from IL&FS*

On October 10, 2001, Bharti Cellular and Infrastructure Leasing and Financial Services Limited ("IL&FS") entered into a term loan agreement for Rs.500 million. The loan facility has been taken to meet the medium term business requirements of Bharti Cellular. The interest is payable at the rate of 11.2% per annum, payable half yearly in arrears. The interest on the loan can be reset at the end of 12 months from the date of disbursement of the loan at a mutually agreeable rate. In the event, the rate reset is not mutually agreed then the facility would have to be repaid within 30 days thereof. As of December 31, 2001, Rs. 500 million was outstanding under this loan.

All delays and defaults in the payment of the principal or interest amounts on their respective due dates will be charged at 18% per annum, payable at quarterly rests.

The loan has been granted for a period of 24 months from the date of first disbursal and the entire amount has to be repaid by a bullet payment at the end of this period. Bharti Cellular has a put option under this agreement to prepay the loan, on mutually agreed terms and conditions, at the end of 12 months from the date of disbursement of loan, after giving 60 days notice in writing to IL&FS. In other circumstances, Bharti Cellular can prepay the loan only with the prior approval of IL&FS, which may be granted conditionally.

The Company has covenanted to maintain certain debt equity ratios during the duration of the loan agreement. The Company has provided an undertaking to maintain a minimum direct and indirect shareholding of 51% in Bharti Cellular over the tenure of the loan facility.

Bharti Cellular has issued a demand promissory note in respect of payment of principal and interest and an unconditional irrevocable corporate guarantee has been issued by the Company for the payment upon demand of the principal amount, along with interest and other monies and such other charges and expenses which may become due or payable at any time.

The loan agreement further provides that in an event of default, IL&FS can recall the entire amount outstanding, along with accrued interest and other monies payable by Bharti Cellular and enforce the security after giving a notice in writing. IL&FS also has the option to convert the loan into a non-convertible debenture on the terms and conditions as per the loan agreement.

*Rs.250 million 10.8% loan from IL&FS*

On December 4, 2001, Bharti Cellular and IL&FS entered into a loan agreement for Rs. 250 million. The loan facility has been taken to meet the medium term business requirements of Bharti Cellular. The interest is payable at the rate of 10.8% per annum, payable half-yearly in arrears. The interest on the loan would be reset at the end of 12th month from disbursement at a mutually agreeable rate. In the event, the rate reset is not mutually agreed then the facility would have to be repaid within 30 days thereof. As of December 31, 2001, Rs. 250 million was outstanding under this loan.

All delays and defaults in the payment of the principal or interest amounts on their respective due dates will be charged at 18% per annum, payable at quarterly rests.

The loan has been granted for a period of 24 months from the date of first disbursal and the entire amount has to be repaid by a bullet payment at the end of this period. Bharti Cellular has a put option under this agreement to prepay the loan, on mutually agreed terms and conditions, at the end of 12 months from the date of disbursement of loan, after giving 60 days notice in writing to IL&FS. In other circumstances, Bharti Cellular can prepay the loan only with the prior approval of IL&FS, which may be granted conditionally.

The Company has covenanted to maintain certain debt equity ratios during the duration of the loan agreement. The Company has also provided an undertaking to maintain a minimum direct and indirect shareholding of 51% in Bharti Cellular over the tenure of the loan facility.

Bharti Cellular has issued a demand promissory note in respect of payment of principal and interest and an unconditional irrevocable corporate guarantee has been issued by the Company for repayment of principal, payment of interest, and all other dues against the facility.

The loan agreement further provides that in an event of default, IL&FS can recall the entire amount outstanding, along with accrued interest and other monies payable by Bharti Cellular and enforce the security after giving a notice in writing. IL&FS also has the option to convert the loan into a non-convertible debenture on the terms and conditions as per the loan agreement.

**Bharti Mobile Limited**

*Rs.1.25 billion secured redeemable non-convertible debentures*

On October 23, 2001, Bharti Mobile and Citibank entered into a debenture subscription agreement for the subscription of up to Rs.1.25 billion aggregate principal amount of secured redeemable non-convertible debentures. Bharti Mobile has utilised the part proceeds of this facility to pay Rs.731 million outstanding under the Rs.1.1 billion credit facility taken by Bharti Mobile from Citibank on October 15, 1999 The proceeds of this facility cannot be utilised by Bharti Mobile for its cellular operations in Punjab or for repayment of any liability in connection with the Punjab license. As of December 31, 2001, 1.25 billion aggregate principal amount of debentures were outstanding.

The interest on the outstanding amount of debentures shall be paid semi-annually on June 30 and December 31 each year. The rate of interest for each interest period would be a rate equal to the yield on two year Government of India Securities as per Reuters screen 'INBMK', as per rates declared at 4 p.m. on each of the last five working days in Mumbai plus the applicable margin, which is 400 basis point per annum. The applicable margin shall be reduced for the relevant interest periods upon the achievement of certain positive financial ratios by Bharti Mobile in its cellular operations of Andhra Pradesh and Karnataka.

The interest on the debentures and on all other monies accruing and due under this debenture subscription agreement shall, in case the same is not paid on the respective due dates, carry further interest at the rate of 2% (plus applicable interest tax, if any) over and above the interest rate prevailing on the date of such default.

Bharti Mobile shall redeem the debentures in 13 consecutive equal semi-annual installments commencing on December 31, 2003 and ending on December 31, 2009. Bharti Mobile can make premature redemption of the debentures only after completion of three years from the date of the debenture subscription agreement. Thereafter, Bharti Mobile may make premature redemption of the debentures, in the inverse order of maturity, upon payment of an unwinding fee of 0.25% per annum, for the remaining tenure of the debentures. However, Bharti Mobile is entitled to make one premature redemption, without payment of any unwinding, fee, exactly at the end of three years. Further, in case Bharti Mobile is merged or consolidated with Bharti Cellular, or any other subsidiary of the Company, Citibank shall have the option to call for a premature redemption of the debentures, without payment of an unwinding fee.

At the option of Citibank, Bharti Mobile may be required to make a pro-rata premature redemption of the debentures, in inverse order of maturity if any of Bharti Mobile's term debt has been prematurely redeemed or repaid.

As per this debenture subscription agreement, the Company has executed a guarantee and share retention agreement, according to which the Company and SC Cellular are required to control directly or indirectly 51% of share capital of Bharti Mobile. Further, Bharti Telecom is required to maintain the management control in the Company. In this context, the term 'management control' shall mean the ability of Bharti Telecom to direct or cause direction of the management and policies of the Company, evidenced by its (1) holding more than 26% and remaining the single largest shareholder of the Company, and (2) to have the ability to appoint more than 50% of the directors of the Company's board before IPO and to appoint more than 50% of the non-independent directors on the Company's board after an IPO, or (3) to have the control of more than 50% of the voting rights, or (4) to appoint the Company's Managing Director.

Further, the Company has undertaken to abide by certain financial requirements and is required to furnish a guarantee to Citibank to the effect that they shall (1) provide a guarantee for a maximum amount of Rs.789 million on a *pari-passu* basis till the date the project is completed, subject to certain conditions being satisfied under the debenture subscription agreement, (2) meet, without recourse to Citibank, any liabilities/ commitments/obligations that may devolve on Bharti Mobile in respect of the Punjab cellular license, and (3) meet, without recourse to Citibank, any liability that may devolve on Bharti Mobile under the financial and performance guarantees furnished to DoT.

The redemption of the principal amount of the debentures, payment of all interest, remuneration of the trustee, other costs, fees, charges and expenses has been secured in favour of Citibank and the trustee by *inter-alia* (1) a first ranking mortgage and charge on a property of Bharti Mobile in Kelawade, Pune and on all or substantially all of Bharti Mobile's immovable properties both present and future, in relation to its Andhra Pradesh and Karnataka operations, (2) a first ranking charge by way of hypothecation of all movable assets of Bharti Mobile in relation to its Andhra Pradesh and Karnataka operations, including movable plant and machinery, telecom equipment, transmission towers, and machinery spares, present and future excluding the fiber optic backbone set up by Bharti Mobile, (3) first charge or assignment of the cellular services licenses for the Andhra Pradesh and Karnataka circles by way of a duly executed tripartite agreement among DoT, Citibank, Bharti Mobile and IDFC; provided however, that pending the execution of the tripartite agreement, Bharti Mobile is required to provide an undertaking to assign the licenses and provide a negative lien to the Debenture holder and the trustee, (4) first ranking pledge or negative lien over shares of Bharti Mobile. SC Cellular has executed a pledge agreement dated November 7, 2001 in respect of its 51% shareholding in Bharti Mobile before signing the tripartite agreement. After signing of the tripartite agreement, the pledge will be reduced to 26% while the negative lien over 25% of the shares held by SC Cellular in Bharti Mobile will be created. On achieving financial completion for Andhra Pradesh and Karnataka operations, the pledge will be released, while the negative lien will increase to cover atleast 51% of the shares held by SC Cellular in Bharti Mobile. The shares to be pledged or charged shall be free from any restrictive covenants, lien or other encumbrance under any contract, arrangement or joint venture agreement entered into by Bharti Mobile, (5) first charge on all operating cash flows, revenues and receivables of Bharti Mobile from Karnataka and Andhra Pradesh, (6) first charge of the proceeds from network sale, including payments from DoT/Government of India/ third parties in the event of amendment/termination/cancellation of the licenses, (7) assignment of all insurance contracts and proceeds relating to the operations in Andhra Pradesh and Karnataka, (8) first charge on the intangible assets of Bharti Mobile, and (9) first charge on all the bank accounts including the debenture retention trust account and other reserves and accounts of Bharti Mobile.

Apart for the customary representations and warranties and affirmative covenants, Bharti Mobile has covenanted (1) that it has not engaged in, nor does it envisage engaging in any business or trade other than providing cellular operations in Andhra Pradesh, Karnataka and Punjab, (2) that it shall maintain certain financial covenants, separate books of records, reserves and accounts for its operations in Punjab and Karnataka and Andhra Pradesh, (3) that it shall provide information, including management accounts, audited balance sheets, budgets, monthly summary performance indicators with respect to the operations in Andhra Pradesh and Karnataka, (4) that it shall maintain insurance on the project assets in the name of Citibank and the Trustee, as mortgagee, (5) to ensure that Essar Investments Limited will have no charge or lien over the assets/cash flow of the operations in Andhra Pradesh and Karnataka, (6) to ensure that no principal or interest becomes due or payable to Essar Investments Limited under the loan agreement dated September 6, 1999, until the redemption, in full of the debentures to the satisfaction of Citibank, unless it is paid out of the funds contributed by the shareholders of Bharti Mobile or Bharti Telecom or Bharti Cellular in the form of equity, and (7) to ensure not to make any equity or other contribution towards any subsidiary operating the Punjab cellular license, unless the same has been contributed by the shareholders of Bharti Mobile or Bharti Telecom or Bharti Cellular, in the form of equity and debt incurred in relation to the Punjab cellular license shall not be secured by creating the encumbrances. Further, Bharti Mobile has covenanted that it shall not recognise or register any transfer of shares in its capital made or to be made by Bharti Telecom, the Company, SC Cellular, Bharti Cellular, that is contrary to the provisions of this debenture subscription agreement and Bharti Mobile shall provide Citibank with the right of first refusal to provide working capital debt, in case of a change or substitution, as per mutually agreed terms and conditions.

Bharti Tele-Ventures has undertaken to abide by certain customary financial covenants and to meet any liability arising out of the Punjab license from other resources without any recourse to this loan facility. The loan agreement also contains certain other negative covenants which restrict Bharti Mobile's ability to (1) merge, amalgamate or consolidate operations, (2) convey, sell, lease, assign or dispose off any assets of Andhra Pradesh and Karnataka operations except those required to be done in the ordinary course of business, (3) effect payments to shareholders, including redemption of preferences shares, payment of dividends, (4) repay subordinate debt, (5) make any amendment to the memorandum and articles which results in non-compliance with this debenture subscription agreement, (6) create additional security interest, (7) incur any additional liability or undertake obligation in connection with Punjab license by creating charge on the assets of Andhra Pradesh and Karnataka operations, (8) undertake any financial or other obligation of Evergrowth.

The debenture subscription agreement provides that in the event of default, in addition to the acceleration of the redemption of the debentures, Citibank has the right to appoint technical and management consultants to inspect and examine the working of Bharti Mobile, cancel any part of its commitment to subscribe to the debentures and proceed to exercise its rights under this agreement and assign, sell, transfer the security or undertake any other remedy concerning the security.

*Rs. 2 billion 13.5% secured redeemable non-convertible debentures from IDFC*

On December 27, 2000, Bharti Mobile and IDFC entered into a debenture subscription agreement for the subscription of Rs.2 billion aggregate principal amount of secured redeemable non-convertible debentures by IDFC. The debentures rank *pari passu* with security interests created in favour of any other lenders in connection with the expansion of Bharti Mobile's cellular networks in Andhra Pradesh and Karnataka to the extent of Rs.6.67 billion. As of December 31, 2001, Rs.2 billion aggregate principal amount of debentures were outstanding.

The debentures bear interest at the rate of 13.5% per annum plus applicable interest tax, if any, payable semi-annually in arrears. This interest rate may be reduced by up to 0.75% per annum if Bharti Mobile meets certain debt service ratio requirements at the end of each six month period ended March 31 and September 30. In addition, IDFC may reset the interest rate after the expiry of each of five years and one day and eight years and one day from the date of the last disbursement under the debenture subscription agreement after giving 60 days' prior notice to Bharti Mobile.

However, IDFC may at its discretion, revise, vary or postpone the redemption of the debentures upon such terms and conditions as may agreed to by it in consultation with Bharti Mobile. Bharti Mobile has the right to redeem the outstanding debentures prematurely on the interest reset dates described above after giving 60 days prior notice to IDFC without payment of any premature redemption premium. Bharti Mobile must use the proceeds of the debentures in connection with the expansion of its cellular networks in Andhra Pradesh and Karnataka. The debentures must be redeemed by Bharti Mobile in 26 quarterly installments commencing October 1, 2003 and ending January 1, 2010 as follows:

- First and second installment - 1.50% each
- Third to sixth installment - 3.00% each
- Seventh to eighteenth installment - 3.75% each
- Nineteenth to twenty-sixth installment 5.00% each

The debenture subscription agreement contains certain customary financial and negative covenants which, among other things, require the maintenance of certain financial ratios and restrict the ability of Bharti Mobile to create liens over its property, issue additional debt (other than as provided in Bharti Mobile's financing plan), issue equity or preference capital, change its capital structure, give any guarantees (other than in the ordinary course of business), merge with other entities, create any subsidiaries, or engage in any businesses in India other than the operation of cellular services in Andhra Pradesh and Karnataka. The debenture subscription agreement also restricts the ability of Bharti Mobile to make certain "restricted payments," including the payment of dividends or other distributions to its shareholders, the purchase or redemption of its share capital or warrants or options therefor. In addition, Bharti Mobile may not prepay any of its long term debt without making a proportionate prepayment to IDFC and complying with other conditions that may be stipulated by IDFC regarding such a prepayment.

Bharti Mobile is required to establish a Project Management/Procurement Committee comprising directors of Bharti Mobile satisfactory to IDFC to supervise and monitor the progress of implementation of the expansion of the cellular networks in Andhra Pradesh and Karnataka. This committee will be responsible for, among other things, management of the expansion during construction, civil engineering, procurement of plant, equipment and machinery and other assets and oversight of operation and maintenance of the network expansion. The Project Management/Procurement Committee must meet once every calendar quarter. In addition, Bharti Mobile has agreed to broadbase the Board of Directors by inducting suitable independent directors.

The debentures are secured on *pari passu* basis by a charge over all immovable and movable properties excluding the optic fiber backbone of Bharti Mobile, a charge on all operating cash flows, revenues and receivables of Bharti Mobile and an assignment of all of Bharti Mobile's rights under its insurance policies and certain other contracts relating to the expansion of its cellular networks in Andhra Pradesh and Karnataka. In addition, the Company is required to pledge 51% of the total paid up share capital in Bharti Mobile in favour of IDFC. However, SC Cellular by a pledge agreement dated December 27, 2000 has pledged 281,000,000 shares of Bharti Mobile. In the event of defaults in payment under the agreement, IDFC has the right to vote and thereafter sell the shares so pledged.

The debenture subscription agreement also contains customary events of default, including a provision that the termination of the licenses for cellular services in Andhra Pradesh and Karnataka constitutes an event of default under the debenture subscription agreement.

The debenture subscription agreement provides that, in the event of default in payment of any amounts due to IDFC or if in the opinion of IDFC the business of Bharti Mobile is being conducted in a manner opposed to public policy or prejudicial to the IDFC's interest, IDFC has the right to review the management organisation of Bharti Mobile and require it to restructure its management as IDFC considers necessary. In addition, in the event of a default by Bharti Mobile of its obligations under the debenture subscription agreement, IDFC may appoint a nominee director to the board of Bharti Mobile.

The Company has undertaken that existing loans from BTVL and Telia in the amount of approximately Rs.3.3 billion will be withdrawn only when Rs.6.67 billion long term financing contemplated by the financing plan for the expansion of the cellular networks in Andhra Pradesh and Karnataka is availed by Bharti Mobile. In addition, the Company has undertaken to provide an additional loan of up to Rs.870 million to Bharti Mobile until the entire Rs.6.67 billion in long term financing contemplated by the financing plan has been obtained by Bharti Mobile. In addition, BTVL and SC Cellular, have undertaken (1) not to withdraw loans to the extent of Rs.500 million until certain debt service coverage ratios are achieved, and (2) to provide additional funding of up to Rs.500 million by way of a contribution of equity, preference capital or subordinated debt to cover any shortfall in annual debt service coverage ratios.

*Rs.2 billion interest rate swap maturing in January 1, 2010 from Deutsche Bank*

Deutsche Bank and Bharti Mobile have executed a term sheet dated November 20, 2001 for undertaking a swap in connection with Bharti Mobile's existing 13.5% fixed rate Non-Convertible Debentures (NCDs) from IDFC maturing in January 2010. The swap matures on January 1, 2010. Under the terms of the term sheet Deutsche Bank will pay a fixed rate of interest of 13.50%, semi annually, commencing on January 1, 2002 upto January 1, 2010.

Bharti Mobile will pay a floating interest rate commencing on January 1, 2002 up to January 1, 2010. The floating interest rate is to be calculated as the daily arithmetic average of the bid yield and the offer yield of the 5 year Reuters Benchmark as determined by the Calculation Agent for the relevant Interest Payment Period plus a spread of 515 basis points. The Reuters Benchmark is available at IN5YT=RR and is updated everyday at 12:30 PM. The reset rate for the start date i.e. 20th November 2001 is 7.13% p.a.. Either party may terminate this swap arrangement 1 year from November 20, 2001 and at the end of every 1 year thereafter.

*Rs.300 million loan from Essar Investments*

On September 6, 1996, Bharti Mobile and Essar Investments ("Essar") entered into an agreement providing for a loan of Rs.300 million from Essar to Bharti Mobile. Outstanding amounts under this loan bear interest at the rate of 13% per annum plus applicable interest tax. Essar has, from time to time, issued letters to Bharti Mobile waving the interest payable on the outstanding amounts under this loan. Bharti Mobile received a letter from Essar, dated May 25, 2001, clarifying that no interest is payable by Bharti Mobile on the amount due under this loan upto March 31, 2001. As of December 31, 2001, Rs.300 million of the loan amount was outstanding.

The proceeds of this loan were used, as per the terms of the agreement, by Bharti Mobile to subscribe to the entire issued and paid up share capital of Evergrowth Telecom Limited ("Evergrowth"). This loan was secured by (1) a pledge of all of Bharti Mobile's shares of Evergrowth and (2) a promissory note for the principal amount of the loan plus accrued interest and other amounts due and payable by Bharti Mobile. Under the loan agreement, Bharti Mobile is not permitted to create any encumbrance, charge or lien on the pledged shares or create any right, title or interest in the pledged shares in favour of any other person.

In addition, Bharti Mobile has undertaken to reconstitute the board of directors of Evergrowth so that it comprises solely of persons recommended by Essar while any part of the loan is outstanding. Bharti Mobile has also granted an irrevocable power of attorney in favour of Essar or its nominee empowering it to execute share transfer deeds in respect of the pledged shares and to sell the pledged shares on such terms and for such consideration as Essar thinks fit.

Essar has the option, subject to DoT approval, to purchase 76% of the pledged shares at a price equal to 76% of the principal amount of the loan plus accrued interest to be paid by a corresponding reduction in the outstanding amount of the loan. Should the remaining 24% of the pledged shares be purchased by Essar, they will also be paid for by a corresponding reduction in the outstanding amount of the loan. The principal amount of the loan together with accrued interest must be repaid after the recall of the loan, which recall cannot happen for a minimum period of three years from the date of the agreement.

*Rs.2.1billion secured redeemable debentures partially guaranteed by International Finance Corporation, Washington ("IFC Washington").*

Bharti Mobile has issued Rs.2.1billion Secured Redeemable Debentures (Taxable) of face value of Rs. 10,000,000 each on private placement basis.

On May 30, 2001, IFC Washington issued a partial guarantee, guaranteeing certain payment obligations of Bharti Mobile under the debentures for a maximum principal amount of Rs.2.1 billion and interest thereon. All payments by IFC under this guarantee have been indemnified in equal dollar amounts by Bharti Mobile.

The debentures have been issued and divided into three separate series on basis of the rate of principal amount, interest and maturity.

- Series I – 10.55% Secured Redeemable Non-convertible debentures of Rs. 10 Million each, aggregating to Rs. 600 Million
- Series II– 10.90% Secured Redeemable Non-convertible debentures of Rs. 10 Million each, aggregating to Rs. 900 Million
- Series III – 11.45% Secured Redeemable Non-convertible debentures of Rs. 10 Million each, aggregating to Rs. 600 Million

The tenure for Series I is five years, for Series II is eight years and for Series III is ten years, each from June 1, 2001 (date of allotment). The debentures are to be redeemed as follows:

- Series I – 4 equal half-yearly installments commencing on December 2004 and ending June 2006;
- Series II - 6 equal half yearly installments commencing on December 2006 and ending June 2009; and
- Series III - 4 equal half yearly installments commencing on December 2009 and ending June 2011

The debentures are rated as AA+(so) by CRISIL and LAA+(so) by ICRA Limited.

The agreement to issue guarantee between IFC and Bharti Mobile contains customary certain financial and negative covenants which, among other things, restrict the ability of Bharti Mobile to, without the agreement of IFC, take any action in respect of the Punjab cellular license, declare or pay any dividend, incur any debts, create any liens on the property, revenue or other assets of Bharti Mobile, form or have any new subsidiary, make or permit to exist loans or advances to other persons, change the nature of Bharti Mobile's present business or operations or prepay any long term debt. IFC pursuant to its letter dated January 10, 2002 has provided its consent to the Company to make a payment of Rs.4,900 million to the DoT to reinstate the Punjab circle. The consent is subject to the condition that should the final decision of the arbitration require the Company to pay a specified amount towards final cost of acquiring the Punjab circle, then this amount would be reflected as equity or shareholder subordinated loan in the accounts of the Company.

In addition, the Company has also entered into a guarantee agreement with IDFC dated May 30, 2001, which guarantees the payment of one interest amount of a sum of Rs.115 million falling due on the third interest payment date.

The obligations of Bharti Mobile to IFC under the guarantee are secured on *pari passu* basis with IDFC and Citibank N.A. by (1) a first mortgage and charge on Bharti Mobile's immovable property, (2) a first mortgage and charge on all the fixed plant and machinery and all movable assets (excluding optic fiber backbone) of Bharti Mobile, (3) a first mortgage and charge by way of assignment of all insurance contracts, (4) a first mortgage and charge by way of assignment of certain right relating to the project including without limitation the license agreements and clearances and (5) a first mortgage and charge by way of assignment of all the accounts in favour of IFC under a legal mortgage in English form. In addition, pending execution of the Tripartite agreement and assignment of the licenses in favour of IFC Washington and IDFC, pledge of 51 % shares of Bharti Mobile owned by SC Cellular.

Upon the occurrence of an event of default, which event includes the failure of Bharti Mobile to perform any material obligation pursuant to the guarantee agreement, in addition to other remedies to enforce its security interests, IFC may notify the debenture trustee and demand the acceleration of the payment of the outstanding principal amount of, an unpaid interest on the loans.

The Company has entered into a Guarantee and Share Retention Agreement on May 30, 2001 with Bharti Mobile, SC Cellular and IFC Washington under which the Company and SC Cellular have jointly and severally guaranteed the performance of Bharti Mobile's obligations under the debentures as the principal obligor. Payments made by the Company and SC Cellular are to be treated as shareholders subordinated loan to Bharti Mobile. The guarantee and indemnity is a separate, additional and independent obligation of the Company and SC Cellular and survives the termination of the Debenture trust deed and is limited to Rs. 789 million.

Under a subordination agreement executed between the Company, Bharti Mobile, SC Cellular, Bharti Telecom and IFC on May 30, 2001, the Company, Bharti Telecom and SC Cellular have undertaken to repay Telia AB in the event Telia AB demands back the loans of Rs.380.01 million (unless the same is repaid out of long-term loans) and Rs.130 million given to Bharti Mobile and once Telia, is as paid, it shall stand subordinated to this loan. Further, the loans advanced by Bharti Tele-Ventures amounting to Rs.2458.28 million shall be subordinated.

Bharti Mobile has to prepay all or part of these debentures in case IFC Washington gives notice of prepayment on Bharti Mobile, when they prepay other long term indebtedness. IFC Washington may require Bharti Mobile to have the debentures listed on one or more recognized stock exchanges on Bharti Mobile's costs.

Under a pledge agreement executed by SC Cellular in favour of IFC and IDFC, SC Cellular has pledged 51% of the issued and outstanding voting common rights of Bharti Mobile.

*Rs.600 million interest rate swap maturing in June, 2004 for Series I from Deutsche Bank*

Deutsche Bank and Bharti Mobile have executed a term sheet dated June 8, 2001 for undertaking a swap on the IFC guaranteed facility for a notional principal amount of Rs.600 million. The swap matures on June 1, 2004. Under the terms of the term sheet Deutsche Bank will pay a fixed rate of interest of 10.55%, semi annually, commencing on June 1, 2001 upto June 1, 2004.

Bharti Mobile will pay a floating interest rate on 1st June and 1st December after June 1, 2001 upto June 1, 2004. The floating interest rate is to be calculated as the daily arithmetic average of the CMT (the bid rate as it appears on Reuters page "IN1YT = RR" as at 2.00 p.m. Mumbai time) as determined by the Deutsche Bank, Mumbai for the relevant payment period plus a spread of 177 basis points on the notional principal amount. Either party may terminate this swap arrangement on June 1, 2002.

*Rs.450 million interest rate swap maturing in June, 2004 for Series II from Deutsche Bank*

Deutsche Bank and Bharti Mobile have executed a term sheet dated June 8, 2001 for undertaking a swap on the IFC guaranteed facility for a notional principal amount of *Rs.450 million*. The swap matures on June 1, 2004. Under the terms of the term sheet Deutsche Bank will pay a fixed rate of interest of 10.90%, semi annually commencing on June 1, 2001 upto June 1, 2004.

Bharti Mobile will pay a floating interest rate on 1st June and 1st December after June 1, 2001 upto June 1, 2004. The floating interest rate is to be calculated as the daily arithmetic average of the CMT as determined by the Deutsche Bank, Mumbai for the relevant payment period plus a spread of 212 basis points on the notional principal amount. Either party may terminate this swap arrangement on June 1, 2002.

*Rs.450 million interest rate swap maturing in June, 2009 for Series II from Deutsche Bank*

Deutsche Bank and Bharti Mobile have executed a term sheet dated June 8, 2001 for undertaking a swap on the IFC guaranteed facility for a notional principal amount of Rs. *450* million. The swap matures on June 1, 2004. Under the terms of the term sheet Deutsche Bank will pay a fixed rate of interest of 10.90%, semi annually commencing on June 1, 2001 upto June 1, 2009.

Bharti Mobile will pay a floating interest rate on 1st June and 1st December after June 1, 2001 upto June 1, 2009. The floating interest rate is to be calculated as the daily arithmetic average of the CMT as determined by the Deutsche Bank, Mumbai for the relevant payment period plus a spread of 160 basis points on the notional principal amount. Either party may terminate this swap arrangement on June 1, 2002.

*Rs.600 million interest rate swap maturing in June, 2004 for Series III from Deutsche Bank*

Deutsche Bank and Bharti Mobile have executed a term sheet dated June 8, 2001 for undertaking a swap on the IFC guaranteed facility for a notional principal amount of Rs.600 million. The swap matures on June 1, 2009. Under the terms of the term sheet Deutsche Bank will pay a fixed rate of interest of 11.45% semi annually on the notional principal amount on 1st June and 1st December after June 1, 2001 upto June 1, 2004.

Bharti Mobile has to pay a floating interest rate on 1st June and 1st December after June 1, 2001 upto June 1, 2004. The floating interest rate is to be calculated as the daily arithmetic average of the CMT as determined by the Deutsche Bank, Mumbai for the relevant payment period plus a spread of 267 basis points on the notional principal amount. Either party may terminate this swap arrangement on June 1, 2002.

**Bharti Telenet Limited**

*Rs.750 million 14% secured redeemable non-convertible debentures (for the Madhya Pradesh fixed-line project) from IDFC*

On March 11, 1999, Bharti Telenet and IDFC entered into a debenture subscription agreement for the subscription of up to Rs.750 million aggregate principal amount of secured redeemable non-convertible debentures by IDFC. The debentures rank *pari passu* with Bharti Telenet's debt with other senior lenders to the extent of their respective loans and with Bharti Telenet's working capital lenders to the extent of Rs.400 million. IDFC subscribed to Rs.500 million, Rs.200 million, Rs.40 million and Rs.10 million principal amount of debentures on March 16, 1999, March 31, 1999, September 15, 1999 and October 29, 1999, respectively. As of December 31, 2001, Rs.750 million aggregate principal amounts of debentures were outstanding.

Bharti Telenet is required to use the proceeds of the debentures in connection with its fixed-line telephone operations in the state of Madhya Pradesh. As per the agreement, Bharti Telenet shall redeem the debentures in 32 equal quarterly installments commencing October 15, 2002 and ending July 15, 2010. Bharti Telenet may not redeem the debentures prematurely except as agreed to, and on terms and conditions stipulated by, the debenture holders.

Under the debenture subscription agreement, IDFC may reset the interest rate after the expiry of 61 months from the date of the last disbursement. If IDFC does not reset the interest rate or the reset rate is not acceptable to Bharti Telenet, Bharti Telenet may redeem the outstanding debentures by giving 60 days' prior written notice. In case of default in redemption of the debentures or payment of interest liquidated damages are stipulated at 2% per annum. Arrears of liquidated damages shall carry interest at the maximum rate of the lenders for normal rupee term loans or the applicable rate under the debenture subscription agreement, whichever is higher.

The stipulated 14% interest rate will apply for so long as Bharti Telenet continues to carry out the business of operating an infrastructure facility under Section 10(23G) of the Income Tax Act. In the event of non-availability/ withdrawal of such benefit under section 10(23G), the interest rate shall be increased by 2.5% per annum plus applicable interest tax. In such an event, Bharti Telenet will have the option to pay the increased interest rate or to redeem the outstanding debentures within six months from the date that benefits under Section 10(23G) became unavailable.

Out of the divisible profits, a certain sum as prescribed by the SEBI guidelines, will be transferred into the Debenture Redemption Reserve. If on account of inadequacy of profits, such sum has not been set aside in any year, the deficit shall be made good out of the profits of the subsequent years.

The debenture subscription agreement contains certain financial and negative covenants which, among other things, require the maintenance of certain customary financial ratios, and achievement of a minimum of 90% of the net profit as projected and restrict Bharti Telenet's ability to create liens over its property, raise additional debt or equity or preference capital, change its capital structure, guarantee other indebtedness, merge with other entities, dispose of its assets or engage in any other project in India, other than the provision of fixed-line telecommunications services in Madhya Pradesh in India or create new subsidiaries without the permission of debenture holders. IDFC pursuant to its letter dated January 10, 2002 has given its no objection to Bharti Telenet for entering into the new basic services licenses for Delhi, Haryana, Karnataka and Tamil Nadu circles. However, the said no objection is subject to BTNL (i) finalizing and operationalising the Trust & Retention Account to IDFC's satisfaction prior to entering into any binding financing arrangements for any of the projects under these new licenses, and (ii) obtaining the necessary no objection of IDBI for the same.

The debenture subscription agreement also restricts Bharti Telenet's ability to make certain restricted payments, including the payment of dividends or other distributions to its shareholders, the purchase or redemption of its share capital or warrants or options therefor, or the payment of interest and principal on subordinate debt. In addition, the debenture subscription agreement requires Bharti Telenet to take steps to transfer its Himachal Pradesh cellular operations into a separate entity within one year from the date of the agreement, subject to the approval of the Government of India. The debenture subscription agreement contains customary events of default, including a provision that the termination of the license for fixed-line telephone services in Madhya Pradesh or the interconnection agreement with the DoT constitute events of default under the debenture subscription agreement.

The debentures are secured by a first ranking *pari passu* charge over all immovable property, present and future and movable property including debts, receivables and revenues of Bharti Telenet, assignment of all of Bharti Telenet's rights in connection with its fixed-line telecommunications services project in Madhya Pradesh including under certain insurance and supply contracts relating to the fixed-line telephone project in Madhya Pradesh and charges on the bank accounts of Bharti Telenet. In addition, the Company is required to pledge 51% of its shares of Bharti Telenet. The Company has entered into a pledge agreement dated March 11, 1999, whereby it has pledged 102,000,000 equity shares of Bharti Telenet as security under the debenture subscription agreement. In the event of default, IDFC has the right to sell the shares and exercise voting rights in respect of these shares.

The debenture subscription agreement provides that in the event of default, IDFC may appoint a nominee director to Bharti Telenet's board of directors and that such director may be a member of the management or other board committees. In the event of a default, Bharti Telenet has also covenanted to appoint suitable technical, financial and executive staff for key posts for Bharti Telenet's Madhya Pradesh project on terms to be approved by IDFC. In case of default in payment of any dues to IDFC and if in the opinion of IDFC, the business of Bharti Telenet is being conducted in a manner opposed to public policy or prejudicial to IDFC's interest, IDFC has the right to review the management organisation of Bharti Telenet and to require it to restructure management as IDFC considers necessary.

The Company has undertaken to provide additional funds to Bharti Telenet (1) to meet any liability that Bharti Telenet may incur under certain financial and performance bank guarantees that it furnished to the Government pursuant to the license for providing fixed-line telephone services in the Madhya Pradesh, (2) to provide Bharti Telenet with additional funds to cover any short fall in the resources of Bharti Telenet to complete the fixed-line telephone project in Madhya Pradesh, to meet cost overruns or for working capital and (3) to maintain a shareholding of at least 75% of the total equity capital of Bharti Telenet.

*Rs.1.25 billion 15% secured redeemable non-convertible debentures from IDBI*

On March 29, 1999 Bharti Telenet and IDBI entered into a debenture subscription agreement for the subscription of upto Rs.1.25 billion aggregate principal amount of secured redeemable non-convertible debentures by IDBI. The debentures rank *pari passu* with Bharti Telenet's debt with other senior lenders to the extent of their respective loans and with Bharti Telenet's working capital lenders to the extent of Rs.400 million. IDBI subscribed Rs.1 billion and Rs.250 million principal amount of debentures on March 31, 1999 and September 29, 1999 respectively. As of December 31, 2001, Rs.1.25 billion aggregate principal amount of debentures were outstanding.

Bharti Telenet is required to use the proceeds of the debentures in connection with its fixed-line operations in the Madhya Pradesh circle. In accordance with the terms of the agreement, Bharti Telenet shall redeem the debentures in 28 equal quarterly installments (comprising principal and interest) commencing October 1, 2002 and ending July 1, 2009. Bharti Telenet may not redeem the debentures prematurely as provided except on the terms and conditions as agreed by IDBI. IDBI may at its discretion vary the redemption schedule in consultation with Bharti Telenet.

Out of the divisible profits, a certain sum as prescribed by the SEBI guidelines, will be transferred to the Debenture Redemption Reserve. If on account of inadequacy of profits, such sum has not been set aside in any year, the deficit shall be made good out of the profits of the subsequent years. Under the debenture subscription agreement, IDBI may reset the interest rate within one month after the expiry of 61 months from the date of the last disbursement. If IDBI does not reset the interest rate or the reset rate is not acceptable to Bharti Telenet, Bharti Telenet may redeem the outstanding debentures by giving 60 days' prior written notice. The 15% interest rate stipulated will apply for so long as Bharti Telenet continues to carry out the business of operating an infrastructure facility under section 10(23G) of the Indian Income Tax Act. In the event of non-availability/ withdrawal of such benefit under section 10(23G), the interest rate shall be revised to IDBI's minimum term lending rate plus 3.5% per annum plus applicable interest tax. In such event, Bharti Telenet will have the option to pay the increased interest rate or to redeem the outstanding debentures within six months from the date that benefits under section 10(23G) became unavailable. In case of default in redemption of the debentures or the payment of interest, liquidated damages are stipulated at 2.1%. Arrears of liquidated damages shall carry interest at the maximum rate permissible for normal rupees terms loans or the rate under the debenture subscription agreement, whichever is higher.

The debenture subscription agreement contains certain customary financial and negative covenants which, among other things, require the maintenance of certain financial ratios and achievement of a minimum of 90% of net profit as projected and restrict the ability of Bharti Telenet to create liens over its property, raise additional debt or equity or preference capital, change its capital structure, guarantee other indebtedness, merge with other entities, or dispose of its assets or engage in any other project in India, other than the provision of fixed-line telecommunications services in Madhya Pradesh or create new subsidiaries without the permission of IDBI.

In addition, the debenture subscription agreement requires Bharti Telenet to take steps to transfer the Himachal Pradesh cellular operations into a separate entity within one year from the date of the agreement, subject to the approval of the Government of India. The debenture subscription agreement also restricts the ability of Bharti Telenet to make certain "restricted payments," including the payment of dividends or other distributions to its shareholders, the purchase or redemption of its share capital or warrants or options therefor, or the payment of interest and principal on subordinate debt.

The debenture subscription agreement contains customary events of default, including a provision that the termination of the license for fixed-line telephone services in Madhya Pradesh or the interconnection agreement with the DoT constitute events of default under the debenture subscription agreement.

The debentures are secured by a first ranking *pari passu* charge over all immovable properties, present and future and movable property including debts and receivables and revenue of Bharti Telenet, charge on all the bank accounts and an assignment of all of Bharti Telenet's rights under the Madhya Pradesh fixed-line project including under certain insurance and supply contracts relating to the fixed-line telephone project in Madhya Pradesh. In addition, the Company is required to pledge 51% of its Bharti Telenet shares. The Company has pledged 102,000,000 equity shares of Bharti Telenet shares to IDBI who is authorized to exercise voting rights and sell the shares in case of default and has undertaken not to dispose of or create any charge over any of such shares while the debentures are outstanding. The security ranks *pari passu* with security interest in favour of the senior lenders and working capital lenders to the extent of Rs.400 million.

Upon occurrence of an event of default, Bharti Telenet has agreed, as and when required by IDBIto appoint and change to its satisfaction suitable technical, financial and executive staff of proper qualification and experience for key posts. IDBI may appoint one nominee director to Bharti Telenet's board of directors and that such director may be a member of the management or other board committees. In the event of default or if in the opinion of IDBI the business of Bharti Telenet is being conducted in a manner opposed to public policy or prejudicial to IDBI's interest, IDBI has the right to review the management organisation of Bharti Telenet and to require it to restructure management as IDBI considers necessary.

The Company has undertaken to provide additional funds to Bharti Telenet (1) to meet any liability that Bharti Telenet may incur under certain financial and performance bank guarantees that it furnished to the Government pursuant to the license for providing fixed-line telephone services in the Madhya Pradesh (2) to cover any short fall in the resources of Bharti Telenet to complete the fixed-line telephone project in Madhya Pradesh, to meet cost overruns or for working capital and (3) to maintain 75% of the shareholding of Bharti Telenet during the currency of the debenture subscription agreement.

*Rs.1.25 billion 14% secured redeemable non-convertible debentures*

On April 10, 2000, Bharti Telenet and IDBI entered into a debenture subscription agreement for the subscription of up to Rs.1.25 billion aggregate principal amount of secured redeemable non-convertible debentures by IDBI. The debentures rank *pari passu* with Bharti Telenet's other senior debt. IDBI subscribed Rs.500 million and Rs.250 million principal amount of debentures on June 12, 2000 and August 25, 2000 respectively. As of December 31, 2001, Rs. 750 million aggregate principal amount of debentures were outstanding. Bharti Telenet is required to use the proceeds of the debentures in connection with its fixed-line telephone operations in the state of Madhya Pradesh. As per the terms of the agreement, Bharti Telenet shall redeem the debentures in 28 equal quarterly installments (comprising principal and interest) commencing October 1, 2002 and ending July 1, 2009. Bharti Telenet may not redeem the debentures prematurely except on the terms and conditions as agreed by IDBI. IDBI may at its discretion vary the redemption schedule in consultation with Bharti Telenet.

Under the debenture subscription agreement, IDBI may reset the interest rate after the expiry of 61months from the date of the last disbursement. If IDBI does not reset the interest rate or the reset rate is not acceptable to Bharti Telenet, Bharti Telenet may redeem the outstanding debentures by giving 60 days' prior written notice.

The debenture subscription agreement contains certain customary financial and negative covenants which, among other things, require the maintenance of certain financial ratios, achieve a minimum of 90% of net profit as projected in the base case on a year to year basis and restrict the ability of Bharti Telenet to create liens over its property, issue additional debt, equity or preference capital, change its capital structure, guarantee other indebtedness, enter into a merger or consolidation, or dispose of its assets or engage in other projects in India other than the provision of fixed-line telecommunication services in Madhya Pradesh in India or create new subsidiaries without the permission of IDBI. In addition, the debenture subscription agreement requires Bharti Telenet to take steps to transfer Himachal Pradesh cellular operations into a separate entity within one year form the date of the agreement, subject to the approval of the Government of India. The debenture subscription agreement also restricts the ability of Bharti Telenet to make certain restricted payments including the payment of dividends or other distributions to its shareholders, the purchase or redemption of its share capital or warrants or options therefor, or the payment of interest and principal on subordinate debt.

The debenture subscription agreement contains customary events of default, including a provision that the termination of the license for fixed-line telephone services in Madhya Pradesh or the interconnection agreement with the DoT constitute events of default under the debenture subscription agreement.

The debentures are secured by a first ranking *pari passu* charge over all immovable properties, present and future, and movable property including debts receivables and revenues of Bharti Telenet present and future, assignment of all Bharti Telenet's rights in connection with its fixed-line telecommunication services in Madhya Pradesh, charges on all bank accounts of Bharti Telenet, and a pledge of 51% of the shares of Bharti Telenet. In addition, the Company has pledged 102,000,000 equity shares of Bharti Telenet. IDBI is authorised to exercise voting rights and sell the shares in the case of default with respect to the pledged shares.

In addition, the Company has undertaken not to dispose of 51% of its Bharti Telenet shares while the debentures are outstanding. The security shall rank *pari passu* with the security interest created in favour of IDBI (Rs. 1.25 billion non convertible debentures), IDFC (Rs. 750 million non convertible debentures) and Bankers seeking capital security of a maximum of Rs. 400 million. The security ranks *pari passu* with security interest in favour of the senior lenders and working capital lenders to the extent of Rs. 400 million.

Upon occurrence of an event of default, Bharti Telenet has agreed, as and when required by IDBIto appoint and change to the satisfaction of the debenture holder, suitable technical, financial and executive staff of proper qualification and experience for key posts. The debenture subscription agreement provides that IDBI may appoint one nominee director to Bharti Telenet's board of directors and that such a director may be a member of the management or other board committees. In the event of default or in the opinion of IDBI, if the business of Bharti Telenet is being conducted in a manner opposed to public policy or prejudicial to IDBI's interest, IDBI has the right to review the management organisation of Bharti Telenet and to require it to restructure management as IDBI considers necessary.

The Company has undertaken to provide additional funds to Bharti Telenet (1) to meet any liability that Bharti Telenet may incur under certain financial and performance bank guarantees that it furnished to the Government pursuant to the license for providing fixed-line telephone services in the Madhya Pradesh, (2) to cover any short fall in the resources of Bharti Telenet to complete the fixed-line telephone project in Madhya Pradesh, to meet cost overruns or for working capital and (3) maintain 75 % of the shareholding of Bharti Telenet during the currency of the debenture subscription agreement.

**Bharti Mobitel Limited**

*Rs.1.25 billion loan facility from Rabo India Finance Private Limited*

On October 17, 2001, Bharti Mobitel and Rabo India Finance Private Limited ("Rabo India") entered into a loan agreement. The current rate of interest is 11.75% per annum. The interest rate will vary depending upon the achievement by Bharti Mobitel of pre-determined financial milestones and by variations in the interest reference rate used by Rabo India. The loan is for a period of up to 78 months from October 22, 2001, the date of first drawdown of the loan facility. The principal repayment is to be made in 10 semi-annual equal installments commencing on April 22, 2003. The loan has been availed for incurring capital expenditure, repayment of vendor credit and refinancing of existing short-term bridge financing facility. As of December 31, 2001, Rs. 1.25 billion was outstanding under this loan.

The loan can be prepaid after two years from the date of the first draw down on an interest reset date with a prior written notice of 15 days, in which case a prepayment premium of 25 basis points will be charged on the amount being prepaid. The loan may also be prepaid in the event of a merger, in which case Rabo India may recall the amount outstanding under the loan facility if it does not wish to continue in the merged entity. The loan agreement also provides that the loan may be prepaid in the event of a merger of Bharti Mobitel into one of the Bharti Group companies if there is a disagreement between Rabo India and Bharti Mobitel on the terms and conditions of the merger or the structure of the loan facility.

The loan has been secured by (1) an exclusive first mortgage over all immovable and movable fixed assets of Bharti Mobitel including its telecommunication network assets, (2) an exclusive first hypothecation charge over all cash, cashflows and receivables, (3) a negative lien on and non-disposal undertaking in respect of the cellular license for the Kolkata metropolitan area and from Bharti Cellular in respect of its shareholding in Bharti Mobitel, (4) a negative lien and undertaking in respect of immovable assets pending the creation of a mortgage thereon and (5) an unconditional and irrevocable corporate guarantee of the Company.

The loan agreement contains certain negative covenants that restrict Bharti Mobitel's ability to (1) utilise the loan for purposes other than the purposes specified in the agreement (2) change its existing business or wind-up or proceed with any voluntary winding-up, (3) sell, transfer or dispose of any of its assets or properties other than in the ordinary course of business, (4) create or allow to be created any security or privilege or right or preference for the benefit of any third party over any or all of its assets, any retention of title, clause, opinion or any third party right, beyond those authorised under the loan agreement. (5) grant any security or guarantee the obligations of a third party, (6) grant any loan, advance or finance to any party other than in the ordinary course of business, (7) pay any dividends, during an event of default, without the written consent of the lender or, (8) pay any dividend unless the free cash flows of Bharti Mobitel are positive for at least one full financial year based on audited financial statements. Further, any payment of dividend would only be after accelerated payment of the outstanding facility amount, in a ratio based on the business plan of Bharti Mobitel.

The loan agreement contains customary events of default including a provision that any change in the shareholding in any or Bharti Mobitel, Bharti Cellular or the Company that is considered by Rabo India to be material or adverse to the loan facility shall constitute an event of default.

The loan agreement provides that in the event of default, Rabo India shall have the rights to suspend or terminate any commitment under this loan facility and realize the security provided under the facility.

**Bharti Mobinet Limited**

*Rs.1.6 billion loan facility from Rabo India Finance Private Limited*

On November 28, 2001, Bharti Mobinet and Rabo India Finance Private Limited ("Rabo India") entered into a loan agreement. The purpose of the loan agreement is to finance (a) capital expenditure and (b) refinancing of existing long term and short term borrowings. Currently the rate of interest is 11.25% per annum and it will vary and be determined on the basis of certain financial milestones to be achieved by Bharti Mobinet and the interest reference rate used by Rabo India. The non-payment of any dues on the payment dates including principal or interest or any fees under the facility will lead to an increase in the interest rate by 2% for any period that the amount is overdue. Rabo India shall with prior written notice to Bharti Mobinet have full right and discretion to alter the rate of interest, in accordance with any directions of the RBI or any other statutes, regulations in this regard. The loan is for a period of up to 78 months from December 4, 2001, the date of first draw down of the loan facility. The principal repayment to be made in 10 semi-annual equal installments commencing on June 4, 2003. The loan has been availed for incurring capital expenditure and refinancing of existing short-term borrowings. As of December 31, 2001, Rs. 1.5 billion was outstanding under this loan.

The loan can be prepaid after two years from the date of the first draw down on an interest reset date with a prior written notice of 15 days, in which case a prepayment premium of 25 basis points will be charged on the amount being prepaid. The loan may also be prepaid in the event of a merger, in which case Rabo India may recall the amount outstanding under the loan facility if it does not wish to continue in the merged entity.

The loan has been secured by a (1) first mortgage hypothecation charge over all immovable and movable fixed assets of Bharti Mobinet including its telecommunication network assets, (2) first hypothecation charge over all cash, cashflows and receivables and a pari-passu charge on the current assets of Bharti Mobinet in favour of working capital lenders for facilities upto Rs. 300 million. The Borrower to avail any working capital facilities against the security of first pari-passu charge on current assets will require the approval of the lender, which would not be unreasonably withheld, (3) negative lien on and non-disposal undertaking in respect of the cellular license for Chennai, (4) negative lien on and non-disposal undertaking for the shareholding of BTVL in Bharti Mobinet held through Bharti Cellular, (5) negative lien and undertaking in respect of immovable assets pending the creation of a mortgage thereon and (6) unconditional and irrevocable corporate guarantee of the Company.

Bharti Mobinet has covenated to maintain certain financial ratios until the payment of the loan. The loan agreement contains certain negative covenants that restrict Bharti Mobile's ability to (1) utilise the loan amount or any portion thereof for purposes other than the purposes specified in the agreement (2) change its existing business, terminate or wind-up or proceed with any voluntary winding-up, (3) sell, transfer or dispose of any of its assets or properties other than in the ordinary course of business, (4) create or allow to be created any security or privilege or right or preference for the benefit of any third party over any or all of its assets, any retention of title, clause, opinion or any third party right, beyond those authorised under the loan agreement, (5) grant any security or guarantee the obligation of a third party (other than its subsidiaries) other than in the ordinary course of business, (6) grant any loan, advance or financing to any party other than in the ordinary course of business , (7) pay any dividends, during an event of default, without the written consent of the Lender, or (8) pay any dividends unless the free cash flows of Bharti Mobinet are positive for at least one full financial year based on audited financial statements. Further, any payment of dividend would only be after accelerated payment of the outstanding facility amount, in a ratio based on the business plan of Bharti Mobinet.

The loan agreement contains customary events of default including a provision that any change in the shareholding of the Company in Bharti Mobinet held through Bharti Cellular or any change in the shareholding of Bharti Telecom and Singtel in the Company, considered by Rabo India to be materially adverse to the loan facility shall constitute an event of default.

The loan agreement provides that in the event of default, Rabo India shall have the rights to suspend or terminate any commitment under this loan facility and realize the security provided under the facility.

**Bharti Telesonic Limited**

*Rs.500 million term loan from IL&FS*

On December21, 2001, Bharti Telesonic and IL&FS entered into a loan agreement for Rs. 500 million. The loan facility has been taken to meet the medium term business requirements of Bharti Telesonic. The interest on Tranche I of Rs.250 million is payable at the rate of 10.8% (exclusive of interest tax) per annum, payable half-yearly in arrears. The interest on Trance II of Rs. 250 million is to be mutually agreed upon between Borrower and IL&FS. The interest on the loan would be reset at the end of $12^{th}$ month from disbursement at a mutually agreeable rate. In the event, the rate reset is not mutually agreed then the facility would have to be repaid within 30 days thereof. As of December 31, 2001, Rs. 250 million was outstanding under this facility.

All delays and defaults in the payment of the principal or interest amounts on their respective due dates will be charged at 18% per annum, payable at quarterly rests.

The loan has been granted for a period of 24 months from the date of first disbursal and the entire amount has to be repaid by a bullet payment at the end of this period. Bharti Telesonic has a put option under this agreement to prepay the loan, at the end of 12 months from the date of disbursement of loan, after giving 60 days notice in writing to IL&FS. In other circumstances, Bharti Telesonic can prepay the loan only with the prior approval of IL&FS, which may be granted conditionally.

The Company has covenanted to maintain certain debt equity ratios in Bharti Telesonic during the duration of the loan agreement. The Company has also provided an undertaking to maintain a minimum direct and indirect shareholding of 51% in Bharti Telesonic over the tenure of this facility. Bharti Telesonic has covenated that it shall not avail of parallel or double finance or any alternate finance in respect of the cost / expenses for which the term finance is being availed of. Further, the finance shall be within the limits prescribed by the Companies Act , RBI Directives and Government Rules, etc.

Bharti Telesonic has issued a demand promissory note in respect of payment of principal and interest and an unconditional irrevocable corporate guarantee has been issued by the Company for repayment of principal, payment of interest, and all other dues against the facility.

The loan agreement further provides that in an event of default, IL&FS can recall the entire amount outstanding, along with accrued interest and enforce the security, if required. IL&FS also has the option to convert the loan into a non-convertible debenture on terms and conditions as per the loan agreement.

**Repayment Schedule :**

| | Bharti Cellular | | | | | Bharti Mobile | | | | | Bharti Telenet | | | Bharti Mobitel | Bharti Mobinet |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Lender | IDBI | Deutsche Bank | St. Chartered Bank | IDBI* | IL&FS | IL&FS | Citibank | IDFC | Essar# | Pvt. Placement | IDFC | IDBI | IDBI | Rabo India | Rabo India |
| Principal | 1000.00 | 375.00 | 750.00 | 2000.00 | 500.00 | 250.00 | 1250.00 | 2000.00 | 300.00 | 2100.00 | 750.00 | 1250.00 | 1250.00 | 1250.00 | 1600.00 |
| O/s as on 31/12/01 | 666.67 | 340.00 | 750.00 | 1900.00 | 500.00 | 250.00 | 1250.00 | 2000.00 | 300.00 | 2100.00 | 750.00 | 750.00 | 1250.00 | 1250.00 | 1500.00 |
| Repayments: | | | | | | | | | | | | | | | |
| 01/01/02 to 31/03/02 | 166.67 | | | | | | | | | | | | | | |
| 2002-03 | 333.33 | 85.00 | | | | | | | | | 46.88 | 53.57 | 89.29 | | |
| 2003-04 | 166.67 | 170.00 | 500.00 | 1900.00 | 500.00 | 250.00 | 96.25 | 60.00 | | | 93.75 | 107.14 | 178.57 | 250.00 | 300.00 |
| 2004-05 | | 85.00 | 250.00 | | | | 192.50 | 240.00 | | 150.00 | 93.75 | 107.14 | 178.57 | 250.00 | 300.00 |
| 2005-06 | | | | | | | 192.50 | 300.00 | | 300.00 | 93.75 | 107.14 | 178.57 | 250.00 | 300.00 |
| 2006-07 | | | | | | | 192.50 | 300.00 | | 300.00 | 93.75 | 107.14 | 178.57 | 250.00 | 300.00 |
| 2007-08 | | | | | | | 192.50 | 300.00 | | 300.00 | 93.75 | 107.14 | 178.57 | 250.00 | 300.00 |
| 2008-09 | | | | | | | 192.50 | 400.00 | | 300.00 | 93.75 | 107.14 | 178.57 | | |
| 2009-10 | | | | | | | 191.25 | 400.00 | | 300.00 | 93.75 | 53.57 | 89.29 | | |
| 2010-11 | | | | | | | | | | 300.00 | 46.88 | | | | |
| 2011-12 | | | | | | | | | | 150.00 | | | | | |

* As per the Agreement, Company has given an undertaking to repay this loan out of the net proceeds of present issue.

\# Based upon legal advice, Essar has no rights to make any claims under this loan. However, there can be no assurance that no claim will be raised by Essar in respect of this loan. For details, please see risk factor on significant liabilities in relation to the Punjab license.

**Summary of guarantees outstanding as of December 31, 2001**

The following table indicates the corporate guarantees issued by Bharti Tele-Ventures, as of December 31, 2001, on behalf of other companies.

The counter guarantee agreements contain certain covenants which the company issuing the guarantee is required to adhere to, such as the, maintenance of prescribed debt-equity ratios, minimum equity capital and retention of management and control of the relevant company or subsidiary in respect of which counter guarantee has been granted.

The loan agreement further provides that in an event of default, IL&FS can recall the entire amount outstanding, along with accrued interest and enforce the security, if required. IL&FS also has the option to convert the loan into a non-convertible debenture on the terms and conditions as per the loan agreement.

| Sr No. | On behalf of | In favour of | Outstanding | Date of Issue | Validity | Purpose |
|---|---|---|---|---|---|---|
| 1 | Bharti Aquanet Limited | HDFC Bank | 20.00 | 17-Nov-00 | 26-Nov-2002 | For performance bank guarantee to DoT |
| | **Total** | | **20.00** | | | |
| 1 | Bharti Cellular Limited | IDBI | 2.00 | 19-May-97 | 31-Mar-2003 | For term loan of Rs. 5 million |
| 2 | Bharti Cellular Limited | St Chart Grindlays | 375.00 | 03-Apr-98 | 01-Apr-2004 | For issue of non convertible debentures of Rs. 750 million |
| 3 | Bharti Cellular Limited | ABN AMRO | 1200.00 | 21-Sep-01 | 23-Sep-2002 | Performance bank guarantee for new 8 Circles |
| 4 | Bharti Cellular Limited | ICICI Ltd. | 2000.00 | 26-Sep-01 | 25-Sep-2002 | Financial bank guarantee for new 4 circles |
| 5 | Bharti Cellular Limited | IDBI | 1000.00 | 27-Sep-01 | 26-Sep-2002 | Financial bank guarantee for new 4 circles |
| 6 | Bharti Cellular Limited | IDBI | 1900.00 | 1-Oct-01 | 08-Oct-2003 | For rupee term loan of Rs. 2000 million |
| 7 | Bharti Cellular Limited | IL&FS | 500.00 | 20-Oct-01 | 22-Oct-2003 | For rupee short term loan of Rs. 500 million |
| 8 | Bharti Cellular Limited | IL&FS | 250.00 | 1-Dec-01 | 05-Dec-2003 | For rupee short term loan of Rs. 250 million |
| 9 | Bharti Cellular Limited | HDFC Bank | 13.12 | 24-Oct-01 | Continuing Guarantee | Financial bank guarantee, performance bank guarantee and overdraft facility |
| 10 | Bharti Cellular Limited | IDBI Bank | 500.00 | 31-Oct-01 | 28-Jul-2002 | For short term loan of Rs. 500 million |
| | **Total** | | **7,740.12** | | | |
| 1 | Bharti Mobile Limited | ABN AMRO | 173.50 | 10-Mar-00 | 12-Mar-2002 | For performance / financial bank guarantee |
| 2 | Bharti Mobile Limited | CITIBANK | 82.44 | 19-May-00 | Continuing Guarantee | For Right of Way Bank Guarantees |
| 3 | | | | | | |
| 4 | Bharti Mobile Limited | IFC | 115.05 | 1-Jun-01 | 01-Dec-2002 | For issue of NCD of Rs. 2100 million |
| 5 | Bharti Mobile Limited | IFC | 789.00 | 1-Jun-01 | 01-Jun-2011 | For issue of NCD of Rs. 2100 million |
| 6 | Bharti Mobile Limited | ABN AMRO | 250.00 | 21-Sep-01 | 20-Sep-2002 | For FBG of Rs. 250 million (relating to Punjab License) |
| | Bharti Mobile Limited | ABN AMRO | 100.00 | 21-Sep-01 | 20-Sep-2002 | For PBG of Rs. 100 million (relating to Punjab License) |
| | Bharti Mobile Limited | ABN AMRO | 100.00 | 21-Sep-01 | 20-Sep-2003 | For additional PBG of Rs. 100 million (relating to Punjab License) |
| | **Total** | | **1609.99** | | | |

| Sr No. | On behalf of | In favour of | Outstanding | Date of Issue | Validity | Purpose |
|---|---|---|---|---|---|---|
| 1 | Bharti Telenet Limited | St Chart Grindlays | 250.00 | 30-Oct-99 | 30-Sep-3002 | For Performance Bank Guarantee to DoT |
| 2 | Bharti Telenet Limited | IDBI Bank Ltd | 20.00 | 24-Sep-01 | 24-Sep-2003 | for Performance Bank Guarantee - Himachal Pradesh |
| 3 | Bharti Telenet Limited | IDBI Bank Ltd | 200.00 | 6-Dec-01 | 09-Jun-2002 | for Financial Bank Guarantee - Haryana |
| | Bharti Telenet Limited | IDBI Bank Ltd | 25.00 | 6-Dec-01 | 12-Dec-2002 | for Financial Bank Guarantee - Haryana |
| 4 | Bharti Telenet Limited | IDFC Ltd. | 500.00 | 24-Sep-01 | 24-Sep-2003 | Add Performance Bank Guarantee for VPT obligations |
| 5 | Bharti Telenet Limited | IDFC Ltd. | 2800.00 | 5-Oct-01 | 21-Oct-2008 | Performance Bank Guarantee for Haryana(400), Karnatka(1400) and Tamil Nadu(1000) fixed-line |
| 6 | Bharti Telenet Limited | ICICI Ltd. | 3000.00 | 22-Oct-01 | 21-Oct-2008 | Performance Bank Guarantee for Delhi (2000) and Tamil Nadu (1000) fixed-line services |
| 7 | Bharti Telenet Limited | HDFC Bank | 1.32 | 24-Oct-01 | - | Financial Bank Guarantee, Performance Bank Guarantee and Overdraft facility |
| | **Total** | | **6796.32** | | | |
| 1 | Bharti Telesonic Limited | Deutsche Bank | 48.57 | 18-Nov-00 | Continuing Guarantee | For Right of Way Bank Guarantee |
| 2 | Bharti Telesonic Limited | CITIBANK | 50.00 | 20-Jul-01 | 21-Jan-2002 | For Bank Guarantee (Tender - VSNL) |
| 3 | Bharti Telesonic Limited | UTI Bank Ltd | 103.81 | 30-Aug-01 | Continuing Guarantee | For bank guarantee And LC (interchangeable) |
| 4 | Bharti Telesonic Limited | HDFC Bank | 102.43 | 24-Oct-01 | Continuing Guarantee | Financial Bank Guarantee, Performance Bank Guarantee and Overdraft facility |
| 6 | Bharti Telesonic Limited | UTI Bank Ltd | 900.00 | 8-Nov-01 | 28-Nov-2008 | For 4 Performance Bank Guarantee of Rs225 million each for rollout obligations |
| 7 | Bharti Telesonic Limited | ICICI Ltd. | 3100.00 | 20-Nov-01 | 28-Nov-2008 | For Performance Bank Guarantee for NLDO rollout obligations |
| 8 | Bharti Telesonic Limited | IDBI Bank Ltd | 200.00 | 6-Dec-01 | 09-Dec-2002 | For Financial Bank Guarantee - NLDO services |
| 9 | Bharti Telesonic Limited | IL&FS | 250.00 | 26-Dec-01 | 25-Dec-2003 | For Rupee short term loan of Rs. 500 million |
| | **Total** | | **4754.81** | | | |
| 1 | Bharti Mobinet Limited | CITIBANK | 81.50 | 10-Aug-01 | 09-Aug-2002 | For Financial Bank Guarantee of Rs.61.5 million and Performance Bank Guarantee Of Rs. 20 million |
| 2 | Bharti Mobinet Limited | Rabo India Finance | 1500.00 | 28-Nov-01 | 04-Dec-2007 | For term Loan of Rs. 1600 million |
| | **Total** | | **1581.50** | | | |
| 1 | Bharti Mobitel Limited | Rabo India Finance | 1250.00 | 18-Oct-01 | 22-Oct-2007 | For Term Loan of Rs. 1250 million |
| | **Total** | | **1250.00** | | | |

| Sr No. | On behalf of | In favour of | Outstanding | Date of Issue | Validity | Purpose |
|---|---|---|---|---|---|---|
| 1 | Bharti BT Limited (V-SAT) | UTI Bank Ltd | 51.4 | 13-Aug-01 | Continuing Guarantee | For Bank Guarantee |
| | **Total** | | **51.4** | | | |
| 1 | Bharti Comtel Limited | IDBI Bank Ltd | 89.4 | 10-Oct-01 | Continuing Guarantee | For LC Limit of equivalent amount |
| | **Total** | | **89.4** | | | |
| | **Grand Total** | | **23,893.54** | | | |

***Summary of short- term loans/inter-corporate deposits as of December 31, 2001***

The following table sets forth, short-term loans taken by Bhart Tele-Ventures and its subsidiaries, as of December 31, 2001.

| Borrowing Company | Amount (Rs. millions) | Tenure | Interest rate | Repayment | Lender | Security |
|---|---|---|---|---|---|---|
| Bharti Tele-Ventures(1) | 1,000 | 181 days from September 7, 2001 | 10.75% p.a. payable quarterly. In the event of delay in the payment of principal and interest thereof, an additional interest at the rate of 2% p.a. | Bullet payment on maturity or conversion into term loan with an option to repay at 30 days notice | HDFC Limited | Unsecured |
| | 500 | 18 months from September 12, 2001 | 10.75% p.a. payable quarterly | Bullet payment on maturity with an option to prepay after 6 months with 30 days notice | HDFC Limited | Unsecured |
| Bharti Mobile | 767 | 91 days from December 17, 2001 | 9.40% p.a. payable on redemption | Bullet payment on maturity | GE Capital Services India | Corporate guarantee by Telia |
| Bharti Cellular | 500 | 9 months from October 31, 2001 | 10% p.a. payable quarterly | Bullet payment on maturity | IDBI Bank Limited | Corporate Guarantee of Bharti Tele-Ventures |

(1) These facilities are in the nature of inter-corporate deposits

## OTHER REGULATORY DISCLOSURES

***Stock Market Data for Equity Shares of the Company***

This being the initial public offering of the Company, the equity shares of the Company are not listed on any stock exchanges.

***Particulars Regarding Previous Public Issues During the Last Five Years***

The Company has not made any public issue during the last five years.

***Companies under the Same Management***

There are no other companies under the same management within the meaning of section 370(1B) of the Companies Act, other than the subsidiaries of Bharti Tele-Ventures, details of which are provided in “Our History and Corporate Structure”.

***Mechanism Evolved for Redressal of Investor Grievances***

Investor grievances will be settled expeditiously and satisfactorily by the Company. The agreement between the Company and the Registrar to the Issue will provide for retention of records with the Registrar to the Issue for a period of at least one year from the last date of despatch of allotment advice or refund orders to enable the investors to approach the Registrar to the Issue for redressal of their grievances.

All grievances relating to this Issue may be addressed to the Registrar to the Issue, Karvy Consultants Limited, giving full details including name, address of the applicant, number of equity shares applied for, amount paid on application and the bank branch or collection centre where the application was submitted.

Investors may note that Mr. Narendra Gupta has been appointed as the Compliance Officer and he may be contacted in case of any pre-issue or post-issue related problems such as non-receipt of allotment advice, refund orders and cancelled Stockinvests, etc.

***Disposal of Investor Grievances***

The average time required by the Company or Registrar for the redressal of routine investor grievances shall be seven working days from the date of receipt of the complaint. In case of non-routine complaints and where external agencies are involved, the Company or Registrar will strive to redress these complaints as expeditiously as possible.

## TERMS OF THE ISSUE

The equity shares being offered are subject to the provisions of the Companies Act, the Memorandum and Articles, conditions of the FIPB and RBI approvals, the terms of the red herring prospectus, the Bid Form, the Revision Form and other terms and conditions as may be incorporated in the allotment advice and any other document that may be executed in respect of the equity shares. In addition, the equity shares shall also be subject to laws as applicable, guidelines, notifications and regulations relating to the issue of capital and listing of securities issued from time to time by SEBI, Government of India, Stock Exchanges, RBIs and/or other authorities, as in force on the date of the issue and to the extent applicable.

**Ranking of Equity Shares**

The equity shares being offered shall be subject to the provisions of Articles of Association of the Company and shall rank *pari passu* with the existing equity shares of the Company including in respect of the rights to receive dividends. See "Main Provisions of the Articles of Association" for a description of the Articles of Association of the Company.

**Mode of Payment of Dividend**

Payment of dividend on equity shares will be made by cheques payable at par at such places as Bharti Tele-Ventures may deem fit. In case the cheques payable at par facility is not available, Bharti Tele-Ventures reserves the right to adopt any other suitable mode of payment.

**Face Value and Issue Price**

The equity shares having a face value of Rs.10 each are being offered at a price of Rs.[●] per equity share. The shares will be of one denomination, subject to applicable regulations. The Company shall comply with all disclosure and accounting norms as specified by SEBI from time to time.

**Rights of the Equity Shareholder**

Subject to applicable law, the equity shareholders shall have the following rights :

a) Right to receive dividend, if declared;

b) Right to attend general meetings and exercise voting powers, unless prohibited by law;

c) Right to vote on a poll either in person or by proxy;

d) Right to receive offers for rights shares and be allotted bonus shares;

e) Right to receive surplus on liquidation; and

f) Such other rights, as may be available to a shareholder of a listed public company under the Companies Act.

For a detailed description of the main provisions of the Articles of Association of the Company,, see "Main Provisions of the Articles of Association".

**Market Lot**

As trading in Bharti Tele-Ventures' equity shares is compulsorily in dematerialised mode, the tradeable lot is one equity share.

**Nomination Facility to Investor**

In accordance with Section 109A of the Companies Act, the sole or first bidder, along with other joint bidder, may nominate any one person in whom, in the event of the death of sole bidder or in case of joint bidders, death of all the bidders, as the case may be, the equity shares allotted, if any, shall vest. A person, being a nominee, entitled to the equity shares by reason of the death of the original holder(s), shall in accordance with Section 109A of the Companies Act, be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the equity share(s). Where the nominee is minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to equity share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale of equity share(s) by the person nominating. A buyer will be entitled to make a fresh nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at the Registered Office of the Company or to the registrar and transfer agents of the Company.

In accordance with Section 109B of the Companies Act, any person who becomes a nominee by virtue of the provisions of Section 109A of the Companies Act, shall upon the production of such evidence as may be required by the Board, elect either:

a. to register himself or herself as holder of equity shares; or

b. to make such transfer of the equity shares, as the deceased holder could have made.

Further, the Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the equity shares, and if the notice is not complied within a period of ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the equity shares, until the requirements of the notice have been complied with.

## ISSUE STRUCTURE

The present issue of 185,336,700 equity shares of Rs.10 each for cash issued at a premium of Rs.[●] per equity share aggregating total consideration of Rs.[●] million is being made through the 100% Book Building process.

| | QIBs | Non-Institutional Investors | Retail Portion(2) |
|---|---|---|---|
| **Number of equity shares** | Issue size less allocation to Non-Institutional Investors and Retail Investors subject to minimum of 111,202,020 equity shares(1) | Minimum of 27,800,505 equity shares or Issue size less allocation to QIBs and Retail Portion(1) | Minimum of 46,334,175 equity shares or Issue Size less allocation to QIBs and Non-Institutional Portion(1) |
| **Percentage of Issue Size** | 60%(1) | Minimum 15% or Issue size less allocation to QIBs and Retail Portion(1) | Minimum 25% or Issue Size less allocation to QIBs and Non-Institutional Portion(1) |
| **Basis of Allocation or Allotment** | Discretionary | Proportionate | Proportionate |
| **Minimum Bid** | 1,100 equity shares and thereafter in multiples of 100 equity shares | 1,100 equity shares and thereafter in multiples of 100 equity shares | 100 equity shares and thereafter in multiples of 100 equity shares |
| **Maximum Bid** | Not exceeding the total Issue size | Not exceeding the total Issue size | 1,000 equity shares |
| **Allotment Mode** | Compulsory in Dematerialised Mode | Compulsory in Dematerialised Mode | Compulsory in Dematerialised Mode |
| **Market lot** | One | One | One |
| **Who can Apply** | Public financial institutions, scheduled commercial banks, mutual funds, foreign institutional investors , multi-lateral and bi-lateral development financial institutions, venture capital funds registered with SEBI, State Financial Corporations, foreign venture capital investors registered with SEBI and state industrial development corporations | Resident Indian individuals, HUF (in the name of Karta), companies, corporate bodies, NRIs, OCBs, societies and trusts | Individuals (including NRIs and HUFs) applying for up to 1,000 equity shares |
| **Terms of Payment** | Full Bid Amount on Bidding unless waived by the Syndicate | Full Bid Amount on Bidding unless waived by the Syndicate | Full Bid Amount on Bidding unless waived by by the Syndicate |

(1) Subject to valid bids being received at or above the Issue Price. Undersubscription, if any, in the non-institutional and retail categories, would be allowed to be met with spill over from other categories.

(2) Retail bidders are allowed to bid at a cut-off price. For details on cut-off, please see Bids at different price levels on page no. 164.

# ISSUE PROCEDURE

**Book Building Procedure**

Investors are required to submit their Bids through Syndicate Members. At least 15% and 25% of this Issue shall be allocated on a proportionate basis to the Non-Institutional Investors and Retail Investors, respectively, subject to valid Bids being received at or above the Issue Price and the balance of the Issue shall be allocated to QIBs who have bid at or above the Issue Price on a discretionary basis by the Company in consultation with the BRLMs (subject to a minimum allocation of 60% of the Issue size). Bharti Tele-Ventures in consultation with the BRLMs reserves the right to reject any Bid procured by any or all Syndicate Members without assigning any reason therefor.

**Investors should note that equity shares would be issued to all the successful allottees only in the dematerialized form.**

**Bid Form**

Bidders shall only use the specified Bid Form bearing the stamp of a Syndicate Member for the purpose of making a Bid in terms of this red herring prospectus. The Bidder shall have the option to make a maximum of three Bids in their Bid Form and such options shall not be considered as multiple bids. Upon the allocation of equity shares, dispatch of the Confirmation of Allocation Note, or CAN, and filing of this rred herring prospectus with the RoC, the Bid Form shall be considered as the Application Form. Upon completing of the Bid Form, the Bidder is deemed to have authorised the Company to make the necessary changes in this red herring prospectus and the Bid Form as would be required for filing the red herring prospectus with the RoC and as would be required by the RoC after such filing, without prior or subsequent notice of such changes to the Bidder.

The prescribed colour of the Bid Form for various categories, is as follows:

| Category | Colour of Bid Form |
|---|---|
| Public, NRI or OCB applying on a non-repatriation basis | White |
| NRI, OCB or FII applying on a repatriation basis | Blue |

**Who can Bid**

a. Indian national resident in India who are majors, in single or joint names (not more than three);

b. Hindu Undivided Families or HUFs, in the individual name of the *Karta*. The Bidder should specify that the Bid is being made in the name of the HUF in the Bid Form as follows: “Name of Sole or First bidder: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the *Karta”*. Bids by HUFs would be considered at par with those from individuals;

c. Companies, corporate bodies and societies registered under the applicable laws in India and authorised to invest in the equity shares;

d. Indian mutual funds registered with SEBI;

e. Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission, if any);

f. Venture Capital Funds registered with SEBI;

g. State Financial Corporations;

h. Foreign venture capital investors registered with SEBI;

i. State Industrial Development Corporations;

j. Trusts registered under the Societies Registration Act, 1860, or under any other law relating to Trusts and who are authorised under their constitution to hold and invest in equity shares);

k. NRIs, OCBs and FIIs on a repatriation basis or a non-repatriation basis subject to applicable laws; and

l. Scientific and/or industrial research organisations authorised to invest in equity shares.

**Note:** The BRLMs, Lead Manager, Syndicate Members and any associate of the BRLMs, Lead Manager and Syndicate Members (except asset management companies of mutual funds, FIIs, banks, Indian financial institutions and public sector banks) cannot participate in the Issue where allocation is discretionary. Further, the BRLMs or Lead Manager shall not be entitled to subscribe to this Issue in any manner except by virtue of devolvement of underwriting.

Bidders are advised to ensure that any single Bid from them does not exceed the investment limits or maximum number of equity shares that can be held by them under applicable laws or regulations.

As per the current regulations, the following restrictions are applicable for investments by mutual funds:

No mutual fund scheme shall invest more than 10% of its net asset value in the equity shares or equity related instruments of any company provided that the limit of 10% shall not be applicable for investments in index funds or sector or industry specific funds. No mutual fund under its scheme should own more than 10% of any company’s paid-up capital carrying voting rights.

The above information is given for the benefit of the Bidders. The Company, the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations or any changes in our business which may happen after the date of this red herring prospectus. Bidders are advised to make their independent investigations and ensure that their number of equity shares bid for do not exceed the applicable limits under laws or regulations.

**Maximum and Minimum Bid Size**

**a. For Retail Bidders**

The Bid must be for a minimum of 100 equity shares and in multiples of 100 equity shares thereafter. In case the Bid is for more than 1,000 equity shares, the same would be considered for allocation to Non-Institutional Investors.

**b. For Other Bidders**

The Bid must be for a minimum of 1,100 equity shares and in multiples of 100 equity shares thereafter. A Bid cannot be submitted for more than 185,336,700 equity shares. However, the maximum Bid by an Institutional Investor should not exceed the investment limits prescribed for them by the regulatory/statutory authorities governing them.

**Bidding Process**

a. The Company will file a red herring prospectus with the RoC three days before the Bid opening.

b. The BRLMs, Lead Manager or Syndicate Members will circulate copies of the red herring prospectus along with the Bid Form only to potential investors.

c. Any investor who would like to obtain the red herring prospectus along with the Bid Form can obtain the same from the registered office of the Company or from any of the BRLMs, Lead Manager or from a Syndicate Member.

d. The Company, the BRLMs shall declare the Bid Opening Date and Bid Closing Date, Issue Opening Date and Issue Closing Date and publish the same in two widely circulated newspapers (one each in English and Hindi). This advertisement shall contain the salient features of the red herring prospectus as specified under Form 2A of the Companies Act, the method and process of bidding and the names and addresses of the BRLMs and Syndicate Members. The BRLMs and Syndicate Members shall start accepting Bids from the Bidders from the Bid Opening Date.

e. Investors who are interested in subscribing for the Company's equity shares should approach any of the BRLMs, Lead Manager or Syndicate Members or their authorized agent(s) to register their Bid.

f. The Bids should be submitted on the prescribed Bid Form only. Bid Forms should bear the stamp of the Syndicate Member. Bid Forms which do not bear the stamp of the Syndicate Member will be rejected.

**Bidding**

a. Each Bid Form will give the Bidder the choice to bid for up to three optional prices (for details refer to the paragraph entitled "Bids at Different Price Levels" below) and specify the demand (i.e. the number of equity shares bid for). The price and demand options submitted by the Bidder in the Bid Form will be treated as optional demands from the Bidder and will not be cumulated. After discovery of the Issue Price, the maximum number of equity shares bid for by a Bidder at or above the Issue Price will be considered for allocation and the rest of the Bid, irrespective of the bid price, will become automatically invalid.

b. The Bidder cannot bid on another Bid Form after his or her Bids on one Bid Form have been submitted to any Syndicate Member. Submission of a second Bid Form to either the same or to another Syndicate Member will be treated as multiple bidding and is liable to be rejected either before entering the Bid into the electronic bidding system, or at any point of time prior to the allotment of equity shares in this Issue.

c. The BRLMs, Lead Manager and Syndicate Members will enter each option into the electronic bidding system as a separate Bid and generate a Transaction Registration Slip, or TRS, for each price and demand option and give the same to the Bidder. Therefore, a Bidder can receive up to three TRSs for each Bid Form.

d. Along with the Bid Form, all Bidders will make payment in the manner described under the paragraph "Terms of Payment".

**Bids at Different Price Levels**

a) The Floor Price would be advertised prior to the Bid Opening Date for reference purposes of the Bidder. It is likely to appear on January 24, 2002 in Business Standard and Jansatta. The Company reserves the right to revise the Floor Price. In such a case, the Company would give adequate public notice so that all investors shall have an opportunity to revise the Bids. Such notice would be advertised in the same newspapers where the Floor Price was advertised. The Floor Price is only indicative. The Company in consultation with the BRLMs can finalize the Issue Price at or above the Floor Price or the revised Floor Price in accordance with this clause, if any, without the prior approval of, or intimation, to the Bidders.

b) **The Bidder can bid at any price at or above the Floor Price. The Bidder has to bid for the desired number of equity shares at a specific price and any Bid at cut-off price will be rejected, except for retail bidders. A retail bidder will also have an option of putting "Cut off Price Bid" on the on-line system. Such bid would imply that the investor is willing to buy the Bid for quantity of equity shares, at whatever be the Issue Price arrived at by the book building procedure.**

c) The Bidder can bid at any price in multiples of Rs.1 only, at or above the Floor Price.

**Escrow Mechanism**

**a) Escrow Account of the Company**

The Company shall open Escrow Accounts with one or more Escrow Collection Banks in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and/or revision. The Escrow Collection Banks will act in terms of this red herring prospectus and an Escrow Agreement entered into with the Company. The monies in the Escrow Account shall be maintained by the Escrow Collection Bank for and on behalf of the Bidders. The Escrow Collection Banks shall not exercise any lien whatsoever over the monies deposited therein and shall hold the monies therein in trust for the Bidders. On opening of the Issue, the Escrow Collection Banks shall transfer the monies from the Escrow Account to the Public Issue Account with the Bankers to the Issue as per the terms of the Escrow Agreement with the Company.

**b) Escrow Account of the Syndicate**

The members of the Syndicate shall open an Escrow Account with one or more Escrow Collection Banks in whose favour the Bidders shall make out the cheque or demand draft in respect of his or her Bid and / or revision. The Escrow Collection Banks will act in terms of this red herring prospectus and an Escrow Agreement with the respective Syndicate Member. The Escrow Collection Banks shall maintain the monies in the Escrow Account of the Syndicate for and on behalf of the Bidders. The Escrow Collection Banks shall not exercise any lien whatsoever over the monies deposited therein, and shall hold the monies therein in trust for the Bidders. On opening of the Issue, the Escrow Collection Bank shall transfer the monies from the Escrow Account to the Public Issue Account with the Bankers to the Issue, as per the terms of the Escrow Agreement with the Syndicate.

The Bidders should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between the Escrow Collection Bank(s), the Company, the Registrars to the Issue and BRLMs to facilitate collections from the Bidders.

**Terms of Payment and Payment into the Escrow Collection Account**

Each Bidder shall, with the submission of the Bid Form draw a cheque, demand draft or Stockinvest for the maximum amount of his Bid in favour of the Escrow Account of the Escrow Collection Bank (for details refer to the paragraph "Payment Instructions") and submit the same to the Syndicate Member (s). Bid Forms accompanied by cash shall not be accepted. The maximum bid price has to be paid at the time of bidding based on the highest bidding option of the Bidder. The Syndicate Member(s) shall deposit such cheque, demand draft or Stockinvest with the Escrow Collection Bank, which will hold the monies for the benefit of the Bidders till such time as the Issue Opening Date. On opening of the Issue, the Escrow Collection Bank shall transfer the funds from the Escrow Account, as per the terms of the Escrow Agreement, into the Public Issue Account with the Bankers to the Issue.

The Syndicate Members may, at their discretion waive such payment at the time of the submission of the Bid Form. Where such payment at the time of bidding is waived at the discretion of the Syndicate, the Issue Price shall be payable for the allocated equity shares no later than the date specified in the CAN, which shall be subject to a minimum period of two days from date of communication of the allocation list to the Syndicate Members by the BRLMs. **If the payment is not made favouring the Escrow Account within the time stipulated above, the Bid of the Bidder is liable to be cancelled.**

However, if the BRLMs, or Syndicate Member does not waive such payment, the full amount of payment has to be made. Where the Bidder has been allocated lesser number of equity shares than he or she had bid for, the excess amount paid on bidding, if any, after adjustment for allocation, will be refunded to such Bidder within 15 days from the Bid Closing Date.

**Electronic Registration of Bids**

a. The BRLMs, Lead Manager or Syndicate Members will register the Bids using the on-line facilities of BSE/NSE. There will be an on-line connectivity to each of the bidding centres.

b. BSE/NSE will offer a screen-based facility for registering Bids for the Issue. This facility will be available on the terminals of the BRLMs, Lead Manager or Syndicate Members and their authorised agents during the Bidding Period. BRLMs, Lead Manager or Syndicate Members can also set up facilities for off-line electronic registration of Bids subject to the condition that they will subsequently download the off-line data file into the on-line facilities for book building on an hourly basis.

c. The aggregate demand and price for bids registered on the electronic facilities of BSE/NSE will be downloaded on a half hourly basis on a single book and graphical duplication of demand and price would be made available on a separate terminal during the bidding period.

d. At the time of registering each Bid, the BRLMs, Lead Manager or Syndicate Members shall enter the following details of the investor in the on-line system:
   - Name of the investor.
   - Investor Category – Individual, Corporate, NRI, OCB, FII, or MF, etc.
   - Numbers of equity shares.
   - Bid price (See paragraph below).
   - Bid Form number.
   - Whether payment is made upon submission of Bid Form.
   - Depository Participant Identification no. and Client Identification no. for Demat Account of the Bidder.
   - Margin amount paid to Syndicate Member, if any.

e. After the above data is entered, the system will generate a Unique Transaction Identification Code, which will indicate the BRLMs or Syndicate Member's identity and the Bidder's registration with him. A system generated TRS will be given to the Bidder as a proof of the registration of each bid price or demand option. It is the Bidder's responsibility to obtain the TRS from the BRLMs or Syndicate Members. The registration of the Bid by the BRLMs, or Syndicate Members does not guarantee that the equity shares shall be allocated either by the BRLMs or other Syndicate Members or the Company.

f. Such TRS will be non-negotiable and by itself will not create any obligation of any kind.

g. The BRLMs, Lead Manager or Syndicate Member has the right to review the Bid. Consequently, the BRLMs, Lead Manager or Syndicate Member also has the right to accept the Bid or reject it without assigning any reason. Bids would normally not be rejected by the BRLMs, Lead Manager or Syndicate Member except on the technical grounds listed elsewhere in the red herring prospectus.

h. It is to be distinctly understood that the permission given by BSE/NSE to use their network and the software of the online initial public offering system should not in any way be deemed or construed that the compliance with various statutory and other requirements by the Company, BRLMs etc., are cleared or approved by BSE/NSE; nor does it in any manner warrant, certify or endorse the correctness or completeness of any of the compliance with the statutory and other requirements nor does it take any responsibility for the financial or other soundness of the Company, its promoters, its management or any scheme or project of the Company.

**Build Up of the Book and Revision of Bids**

a. Bids registered by various Bidders through the BRLMs, Lead Manager or Syndicate Member shall be electronically transmitted to the BSE/NSE mainframe on an on-line basis. Data would be uploaded on a hour-hourly basis.

b. The book gets built up at various price levels. This information will be available with the BRLMs on an on-line basis.

c. During the Bidding Period, any Bidder who has registered his or her interest in the equity shares at a particular price level is free to revise his or her Bid to a higher price level (upward revision) as well as to a lower price level (downward revision) using the printed Revision Form.

d. Revisions can be made in both the desired number of equity shares and the bid price by using the Revision Form. The Bidder must complete his or her Bid Form number, the details of all the options in his or her Bid Form or earlier Revision Form and revisions for all the options as per his Bid Form or earlier Revision Form. For example, if a Bidder has bid for three options in the Bid Form and he is changing only one of the options in the Revision Form, he must still fill the details of the other two options in the Revision Form unchanged. Incomplete or inaccurate Revision Forms will not be accepted by the Syndicate Members.

e. The Bidder can make this revision any number of times during the Bidding Period. However, for any revision(s) in the earlier Bid, the Bidders will have to use the services of the same Syndicate Member through whom he has placed the original Bid.

f. Any revision of the Bid shall be accompanied by payment in the form of cheque or demand draft or Stockinvest for the incremental amount, if any, to be paid on account of the upward revision of the Bid. The excess amount, if any, resulting from downward revision of the Bid would be returned to the Bidder at the time of refund in accordance with the terms of this red herring prospectus. The BRLMs, or Lead manager or Syndicate Member may at his sole discretion waive the payment requirement at the time of one or more revisions by the Bidders.

g. When a Bidder revises his or her Bid, he or she shall surrender the earlier TRS and get a revised TRS from the BRLMs, or Syndicate Member. It is the responsibility of the Bidder to request for and obtain the revised TRS, which will act as proof of his or her having revised the previous Bid.

h. In case of discrepancy of data between BSE/NSE and the Syndicate Member, the decision of the BRLMs based on the records of BSE/NSE shall be final and binding to all concerned.

**Price Discovery and Allocation**

a. After the Bid Closing Date, the BRLMs shall analyse the demand generated at various price levels and discuss pricing strategy with the Company.

b. The Company in consultation with BRLMs will finalise the “Issue Price”, the number of equity shares to be issued and the allocation to successful Bidders. The allocation will be decided based on the quality of the Bidder determined broadly by the size, price and date of the Bid.

c. The allocation for QIBs of 60% of the Issue Size would be discretionary. The allocation to Non-Institutional Investors and Retail Investors of not less than 15% and 25% of the Issue Size, respectively would be on proportionate basis subject to valid Bids being received at or above the Issue Price.

d. Undersubscription, if any, in the non-institutional portion and retail portion, would be allowed to be met with spill over from other categories.

e. Allocation to NRIs, FIIs or OCBs applying on repatriation basis will be subject to the terms and conditions stipulated by the FIPB and RBI while granting permission for Issue of equity shares to them.

f. The BRLMs shall intimate the Syndicate Members of the Issue Price and allocations to the Bidders.

g. The Company reserves the right to cancel the Issue after the Bid Opening Date.

**Signing of Underwriting Agreement and RoC Filing**

a. The BRLMs and the Company and other Syndicate Member(s) shall enter into an underwriting agreement on reaching agreement upon the Issue Price and allocation(s) to the Bidders.

b. The Prospectus shall be finalised and filed with the RoC following execution of the underwriting agreements.

**Announcement of Advertisement**

After the Company, in consultation with the BRLMs, determines the Issue Price, a statutory advertisement will be issued by the Company either prior to or after the filing of the Prospectus with the RoC. This advertisement shall in addition to the information that has to be set out in the statutory advertisement indicate the Issue Price along with a table showing the number of equity shares and the amount payable by an investor.

**Issuance of Confirmation of Allocation Note (“CAN”) and Allotment in the Issue**

a. The BRLMs or Registrars to the Issue shall send to the Syndicate Members a list of their Bidders who have been allocated equity shares in the Issue.

b. The receipt by the Syndicate Members of the list of allocation for Bidders shall constitute acceptance of the Bids set out in the said lists and the same shall be deemed to be a valid and binding contract. The Bidders shall be deemed to have knowledge of such acceptance immediately upon the receipt by the Syndicate Members of the list of allocation for Bidders. The Syndicate Member is, for this limited purpose, deemed to be the agent of the Bidders.

c. The BRLMs, or Syndicate Members would then send the CAN to their Bidders who have been allocated equity shares in the Issue. Those Bidders who have not paid into the Escrow Account at the time of bidding shall pay in full the amount payable into the Escrow Account.

d. Bidders who have been allocated equity shares and who have already paid into the Escrow Account of the Company at the time of bidding shall directly receive the CAN from the Registrars to the Issue subject, however, to realisation of their cheques or demand draft paid into the Escrow Account of the Company.

e. After allotment all allottees will receive credit for equity shares directly in their depository account. **No equity shares will be issued in the physical form to the Allottees.** Allottees will have the option to re-materialise the equity shares so allotted, if they so desire, as per the provisions of the Companies Act and the Depositories Act.

**Filing of Prospectus with RoC**

After signing of the Underwriting Agreement, the Company would file the red herring prospectus with RoC, which then would be thereafter termed as ‘Prospectus’. The Prospectus would have details of the Issue Price, number of equity shares to be issued, underwriting arrangements and would be complete in all respects.

**Designated Date**

After filing of the Prospectus with the RoC, the funds would be transferred from the Escrow Account of the Company to the Public Issue Account on the Designated Date.

The Company would make allotment of equity shares within 15 days of closure of the bidding and give credit to the allottees' depository account within two working days from the date of allotment. In case the Company fails to make allotment within 15 days of closure of the Bidding, interest would be paid to the investors at the rate of 15% per annum.

**GENERAL INSTRUCTIONS**

**Do's:**

a. Check if you are eligible to apply;

b. Complete the Resident Bid Form (white in colour) or Non-Resident Bid Form (blue in colour), as the case may be;

c. Complete the Bid Form carefully after reading all the instructions;

d. Enter correct details about Depository Participant and Beneficiary Account as no physical equity shares will be issued;

e. Submit Bids on forms bearing stamp of the Syndicate Member at the bidding centres only;

f. Obtain TRS for all your options; and

g. Submit Revised Bid to the same Syndicate Member through whom the Original Bid was placed and obtain a revised TRS.

**Don'ts:**

a. Do not Bid for lower than minimum Bid size or less than the Floor Price;

b. A Bidder should not Bid on another Bid Form after he has submitted the Bid to a Syndicate Member;

c. Do not pay the Bid amount in cash;

d. Do not send Bid Forms by post; instead hand them over to a Syndicate Member only;

e. Do not bid at cut off price if you are not a retail investor;

f. A Bid from any investor should not exceed the investment limit or maximum number of equity shares that can be held by him under the applicable laws or regulations.

**Instructions for Completing the Bid Form**

Bidders can obtain Bid Forms and/or Revision Forms from the BRLMs, Lead Manager or Syndicate Members.

*Bids and revisions to Bids*

Bids and revisions to Bids must be:

a. Made only in the prescribed Bid Form or Revision Form, as applicable (white colour for Resident Indians and blue colour for NRI, FII or OCB applying on repatriation basis).

b. Completed in full, in BLOCK LETTERS in ENGLISH and in accordance with the instructions contained herein the Bid Form or Revision Form. Incomplete Bid Forms or Revision Forms are liable to be rejected.

c. For Retail Portion, the Bids must be for a minimum of 100 equity shares and in multiples of 100 thereafter subject to a maximum of 1000 equity shares.

d. For Bidders other than the Bidders in the Retail Portion, Bids must be for a minimum of 1,100 equity shares and in multiples of 100 equity shares thereafter. Bids cannot be made for more than the Issue size offered for the Book Built portion. Bidders are advised to ensure that a single Bid from them should not exceed the investment limits or maximum number of shares that can be held by them under the applicable laws or regulations.

e. In single name or in joint names (not more than three).

f. Thumb impressions and signatures other than in the languages specified in the Eight Schedule in the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate under his or her official seal.

***Bidder's Bank Details***

The name of the sole or first Bidder's bank, branch, type of account and account numbers must be completed in the Bid Form. This is required for the Bidder's own safety so that these details can be printed on the refund orders. Bids without these details are liable to be rejected.

*Bidders Depository Account Details*

It is mandatory for all the Bidders to get their equity shares in dematerialised form. All Bidders should mention their Depository Participant's name, Depository Participant-Identification number and Beneficiary Account Number in the Bid Form. In case the Bid Form is submitted in joint names, it should be ensured that the Depository Account is also held in the same joint names and are in the same sequence in which they appear in the Bid Form.

*Bids under Power of Attorney*

In case of Bids made pursuant to a Power of Attorney or by limited companies, corporate bodies, registered societies, a certified copy of the Power of Attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the Memorandum and Article of Association and/or Bye Laws must be lodged alongwith the Bid Form. Failing this, the Company reserves the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason therefor.

*Bids by NRIs*

NRI bidders to comply with the following:

a. Individual NRI bidders can obtain the bid forms from the Company's registered office at Qutab Ambience, H-5/12, Mehrauli Road, New Delhi 110030, India, or the Registrar to the Issue, or BRLMs.

b. NRI bidders may please note that only such bids as are accompanied by payment in free foreign exchange shall be considered for allotment under the NRI category. "The NRIs who intend to make payment through Non-Resident Ordinary (NRO) accounts shall use the form meant for Resident Indians."

***Bids by NRIs, OCBs, or FIIs on a repatriation basis***

Bids and revision to Bids must be made:

a. On the Bid Form or Revision Form, as applicable, (Blue in colour), and completed in full in BLOCK LETTERS in ENGLISH in accordance with the instructions contained therein.

b. In a single or joint names (not more than three).

c. NRIs-For a minimum of 100 equity shares and in multiples of 100 thereafter subject to a maximum of 135,195,677 equity shares; OCBs and FIIs–for a minimum of 1,100 equity shares and in multiples of 100 thereafter subject to a maximum of 135,195,677; for further details see "Issue Procedure - Maximum and Minimum Bid Size".

d. In the names of individuals, societies and other corporate bodies owned predominantly (at least to the extent of 60%) by Non-Resident Individuals of Indian nationality or origin, or in the names of FIIs but not in the names of minors, firms or partnerships, foreign nationals or their nominees. Bids by societies, overseas limited companies and other corporate bodies owned predominantly (at least 60%) by Non-Resident Indians must be accompanied by a certificate in the prescribed form OAC or OAC1 from Overseas Auditor or Chartered Accountant or Certified Public Accountant.

The Company has received approvals from the FIPB and the RBI allowing NRIs, OCBs or FIIs to apply in this Issue on a repatriable basis.

Hence, it will not be necessary for the investors to seek a separate permission from the RBI. The allotment of the equity shares to NRIs, OCBs or FIIs shall be subject to RBI approval or any other requisite authority as may be necessary. Sale proceeds of such investments in equity shares will be allowed to be repatriated along with the income thereon subject to the permission of the RBI and subject to Indian tax laws and regulations and any other applicable laws provided the investments are made by inward remittances from outside India through approved banking channels or out of funds held in NRE or FCNR accounts.

Refunds, dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and/or commission. In case of Bidders who remit money payable upon submission of the Bid Form or Revision Form through Indian Rupee drafts purchased abroad, such payments in Indian Rupees will be converted into US Dollars or any other freely convertible currency as may be permitted by the RBI at the rate of exchange prevailing at the time of remittance and will be dispatched by registered post or if the bidders so desire, will be credited to their NRE accounts, details of which should be furnished in the space provided for this purpose in the Bid Form. The Company will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency.

**Payment Instructions**

The Company shall open an Escrow Account of the Company with the Escrow Collection Banks for the collection of the Bid Amounts payable upon submission of the Bid Form and for amounts payable pursuant to allocation in the Issue.

The BRLMs, Lead Manager and Syndicate Member shall also open Escrow Accounts of the Syndicate Member with one or more of the Escrow Collection Banks for the collection of the Margin Amounts payable upon submission of the Bid Form and for amounts payable pursuant to allocation in the Issue.

Each Bidder shall draw a cheque or demand draft for the amount payable on the Bid and/or on allocation as per the following terms:

**(a) Payment into Escrow Account of the Company:**

(i) The Bidders for whom the applicable margin is equal to 100% shall, with the submission of the Bid Form draw a payment instrument for the Bid Amount in favour of the Escrow Account of the Company and submit the same to the Syndicate Member(s).

(ii) In case no Margin Amount has been paid by the Bidders during the Bidding Period, on receipt of the CAN, an amount equal to Issue Price multiplied by the equity shares allocated to the Bidder, shall be paid by the Bidders into the Escrow Account of the Company within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the Syndicate Member(s) by the BRLMs.

(iii) The payment instruments for payment into the Escrow Account of the Company should be drawn in favour of:

(a) In case of Resident Bidders: "Escrow Account- BTVL Public Issue".

(b) In case of Non Resident Bidders: "Escrow Account- BTVL Public Issue- NR."

(iv) Where a Bidder has been allocated lesser number of equity shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the equity shares allocated, will be refunded to the Bidder from the Escrow Account of the Company.

(v) The monies deposited in the Escrow Account of the Company will be held for the benefit of the Bidders till the Issue Opening Date.

(vi) On or after the Issue Opening Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account of the Company as per the terms of the Escrow Agreements into the Public Issue Account with the Bankers to the Issue.

**(b) Payment into Escrow account of the Syndicate Member:**

(i) The Bidders in such categories where the Margin is lesser than 100 %, shall with the submission of the Bid Form draw a payment instrument for the Margin Amount based on the applicable Margin in favour of the Escrow Account of the Syndicate Member and submit the same to the Syndicate Member(s).

(ii) In case the above Margin Amount paid by the Bidders during the Bidding Period is less than the Issue Price multiplied by the equity shares allocated to the Bidder, the balance amount shall be paid by the Bidders into the Escrow Account of the Syndicate Member(s) within the period specified in the CAN which shall be subject to a minimum period of two days from the date of communication of the allocation list to the Syndicate Member(s) by the BRLMs.

(iii) The payment instruments for payment into the Escrow Account of the Syndicate Member should be drawn in favour of:

(a) In case of Resident Bidders: "Name of the Syndicate Member - "Escrow Account - BTVL Public Issue".

(b) In case of Non Resident Bidders: "Name of the Syndicate Member - "Escrow Account – BTVL Public Issue –NR."

(iv) Where a Bidder has been allocated lesser number of shares than the Bidder has Bid for, the excess amount, if any, paid on bidding, after adjustment towards the balance amount payable on the equity shares allocated, will be refunded to the Bidder from the Escrow Account of the Syndicate Member.

(v) The Syndicate Members shall deposit payment instrument(s) with the Escrow Collection Bank(s). The monies deposited in the Escrow Account of the Syndicate Member will be held for the benefit of the Bidders, as per the terms of the Escrow Agreement of the Syndicate Member, till the Issue Opening Date.

(vi) On or after the Issue Opening Date, the Escrow Collection Banks shall transfer the funds from the Escrow Account of the Syndicate Member as per the terms of the Escrow Agreements into the Public Issue Account with the Bankers to the Issue.

**Payment by Stockinvest**

The Bidder, being an individual or mutual fund, has the option to use the Stockinvest instrument in lieu of cash, cheques or bank drafts for payment of bid money, subject to applicable laws or regulations. However, in respect of individual Bidders, banks have imposed a ceiling of Rs. 50,000 per individual per Stockinvest. Stockinvest instruments are payable at par at all the branches of the issuing bank and as such, outstation Stockinvest instruments can be attached to the Bid Form or Revision Form. The bidder may approach the banks concerned for obtaining Stockinvest and detailed instructions for the same. Service charges, if any, for issuing the Stockinvest must be borne by the Bidder.

The Bidder has to fill in the following particulars:

a. Title of the Account as mentioned in the Bid form;

b. Number of equity shares bid for;

c. The maximum amount payable as per the options in the Bid Form or Revision Form; and

d. Name and address of the Bidder.

The Bidder should thereafter sign the instrument. It should also bear the stamp of the bank issuing the instrument and should be crossed "A/c Payee Only" and made payable only to **"BTVL"**. The Bidder should not complete the portion to be completed by the Registrars (right-hand portion of the instrument).

The Bidder should use the Stockinvest and the name of the Bidder or one of the Bidders should be indicated as the first Bidder in the Bid Form or Revision Form. Thus, if the signature of the Bidder on the Stockinvest and the signature of the first bidder in the Bid Form or Revision Form do not tally, the Bid would be treated as having been accompanied by a third party Stockinvest and is liable to be rejected.

The Stockinvest instrument should be used by the Investor within 10 days from the date of Issue of the instrument, failing which such bids are liable to be rejected. For the purpose of calculating the 10 days, the last date for use of the Stockinvest for submitting the Bid Form or Revision Form to the BRLMs, or Syndicate Members is indicated on the face of the Stockinvest with a notation "to be used before ________________".

The Registrars to the Issue will complete the right-hand side of the Stockinvest indicating the equity shares allotted to the Bidder, calculated as follows:

a. In case of full allotment, the number of equity shares on the right-hand side will be the same as that on the left-hand side of the instrument;

b. In case of partial allotment, the number filled up by Registrars to the Issue on the right-hand side of the instrument will be less than the number filled up by the Bidder on the left- hand side;

c. In case the allotment is Nil, the number filled up by the Registrars to the Issue on the right-hand side of the instrument will be Nil.

No refund order will be issued to the Bidders using Stockinvest for payment of the money due while submitting the Bid Form or Revision Form. In case of non-allotment of equity shares, the cancelled Stockinvest instruments will be returned to the bidder, within 15 days of Issue Closing by registered post or speed post. The Bidder will have to approach the issuing bank branch for lifting the lien.

Registrars to the Issue have been authorised by the Company (through a resolution passed by the IPO Committee of Directors at its meeting held on January 14, 2002 to sign on behalf of the Company), to realise the proceeds of the Stockinvest from the issuing bank or to affix non-allotment advice on the instrument, or to cancel the Stockinvest(s) of the non-allottes. Such cancelled Stockinvest(s) shall be sent back by the Registrars directly to the investors. Stockinvest will be realised through ICICI Bank, HDFC Bank.

The Reserve Bank of India vide its Circular No. DBOD No. FSC. BC.100/24.47.001/94 dated September 2, 1994 has restricted the use of Stockinvests to individual investors and mutual funds only. Stockbrokers, corporate bodies, banks and financial institutions are not allowed to apply through Stockinvests. **A ceiling of Rs. 50,000 per individual per Stockinvest by banks has been imposed.**

All other conditions mentioned for making a Bid through cheque or bank draft will also apply to Bids made using Stockinvest.

**Note:**

**The above information is given for the benefit of investors and the Company is not liable for any modification of the terms of Stockinvest or procedure thereof by the issuing bank. For further instructions, please read the Bid Form carefully.**

**Submission of Bid Form**

All Bid Forms or Revision Forms duly completed and accompanied by account payee cheques or drafts or Stockinvest shall be submitted to the BRLMs, Lead Manager or Syndicate Member at the time of submitting the Bid. **A Syndicate Member may at its discretion waive the requirement of payment at the time of submission of the Bid Form and Revision Form in the case of Bidders.**

No separate receipts shall be issued for the money payable on the submission of Bid Form or Revision Form. However, the collection centre of the BRLMs, Lead Manager or Syndicate Member will acknowledge the receipt of the Bid Forms or Revision Forms by stamping and returning to the Bidder the acknowledgement slip. This acknowledgement slip will serve as the duplicate of the Bid Form for the records of the Bidder.

**OTHER INSTRUCTIONS**

**Joint Bids in the case of Individuals**

Bids may be made in single or joint names (not more than three). In the case of joint Bid, all payments will be made out in favour of the Bidder whose name appears first in the Bid Form or Revision Form ("First Bidder "). All communications will be addressed to the First Bidder and will be despatched to his or her address.

**Multiple Bids**

A Bidder should submit only one Bid (and not more than one) for the total number of equity shares required. Two or more Bids will be deemed to be multiple bids if the sole, First Bidder is one and the same.

In case of a mutual fund, a separate Bid can be made in respect of each scheme of the mutual fund registered with SEBI and such Bids in respect of more than one scheme of the mutual fund will not be treated as multiple bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

The Company reserves the right to reject, in its absolute discretion, all or any multiple bids in any or all categories.

**PAN or GIR Number**

Where the maximum Bid for equity shares by a Bidder is for the total value of Rs.50,000 or more, i.e. the actual numbers of equity shares bid for multiplied by the bid price is Rs.50,000 or more, the Bidder or, in the case of a Bid in joint names, each of the Bidders should mention his or her Permanent Account Number (PAN) allotted under the Income Tax Act, 1961, as amended, or where the same has not been allotted, the General Index Register (GIR) Number and the Income-Tax Circle, Ward or District. In case neither the PAN nor the GIR number has been allotted, the Bidders must mention "Not allotted" in the appropriate place. Bid Forms without this information will be considered incomplete and are liable to be rejected.

**Company's Right to Reject Bids**

The Company reserves the right to reject any Bid without assigning any reason therefor in case of QIBs and Non-Institutional Investors whereas it has a right to reject bids from retail investors only based on technical grounds. Consequent refunds shall be made by cheque or pay order or draft and will be sent to the bidder's address at the bidder's risk.

In case the amount payable on Bid is Rs. 20,000 or more, taken together with any earlier outstanding loan or deposit placed with the Company by the Bidder, such payment must be effected only by way of an account payee cheque or Stockinvest or bank draft and not in cash in terms of Section 269SS of the I.T. Act. In case payment is effected in contravention of this section, the Bid is liable to be rejected without interest.

Bidders are advised to note that Bids are liable to be rejected on the following technical grounds:

Amount paid doesn't tally with the highest number of equity shares bid for, Bank account details (for refund) are not given, Age of First Bidder not given, Bid by Minor, PAN or GIR Number not given if Bid is for Rs.50,000 or more, Bids for lower number of equity shares than specified for that category of investors, Bids at a price less than the Floor Price, Bids at cut-off price in case of non institutional and QIB Bidders, Bids for number of equity shares which are not multiples of 100. Category not ticked, Multiple bids as defined elsewhere. In case of Bid under power of Attorney or by limited companies, corporate, trust etc., relevant documents are not submitted. Bids accompanied by Stockinvest purchased 10 days prior to Bid Opening Date or Fixed Price Opening Date, as the case may be Bids accompanied by Stockinvest of value exceeding Rs.50,000 by Individuals. Bids accompanied by third party Stockinvest. Right hand side of the Stockinvest has been completed and Bids accompanied by cash exceeding Rs.20,000. Bids by Bidders other than individuals and mutual funds accompanied by Stockinvest. Bid Form does not have the stamp of the Syndicate Member, Bid Form does not have Bidders depository account details and the Bid Forms are not delivered by the Bidders within the time prescribed as per the Bid Form, Bid Opening Date advertisement and this red herring prospectus and as per the instructions in this red herring prospectus and the Bid Form.

**Equity shares in Dematerialised Form with NSDL or CDSL**

As per the provisions of Depositories Act, the equity shares of the Company can be held in a dematerialised form, (i.e. not in the form of physical certificates but be fungible and be represented by the statement issued through electronic mode).

The Company is also extending this facility to all the investors in this Offering. Successful allottees in this Offering will be mandatorily allotted equity shares in dematerialised form. In this context, two tripartite agreement have been signed between the Company and Depository:

a. The first dated December 29,2001 between the Company, NSDL and Registrar for offering the depository option to the investors.

b. The second dated January 12, 2002 between the Company, CDSL and Registrar for offering the depository option to the investors.

**All investors can seek allotment only in dematerialised mode. Bids from any investor without relevant details of his or her depository account are liable to be rejected.**

a. A Bidder applying for equity shares must have at least one beneficiary account with any of the Depository Participant of NSDL or CDSL prior to making the Bid.

b. The Bidder must necessarily fill in the details (including the beneficiary account number and Depository Participant's Identification number) appearing in the Bid Form or Revision Form.

c. Equity shares allotted to an bidder will be credited in electronic form directly to his, her its respective beneficiary accounts (with the Depository Participant).

d. Names in the Bid Form or Revision Form should be identical to those appearing in the account details in the depository. In case of joint holders, the names should necessarily be in the same sequence as they appear in the account details in the Depository.

e. Non-transferable allotment advice or refund orders will be directly sent to the Bidder by the Registrars to this Issue.

f. If incomplete or incorrect details are given under the heading 'Request for equity shares in electronic form' in the Bid Form or Revision Form, it will be rejected.

g. The Bidder is responsible for the correctness of his or her demographic details given in the Bid form vis-à-vis those with his or her Depository Participant.

h. It may be noted that equity shares in electronic form can be traded only on the Stock Exchanges having electronic connectivity with NSDL or CDSL. All the stock exchanges where the equity shares of the Company are proposed to be listed are connected to NSDL and CDSL.

i. The trading of the equity shares of the Company would be in dematerialised form only for all investors.

**Communications**

All future communications in connection with Bids made in the Issue should be addressed to the Registrars to the Issue quoting full name of the sole or first Bidder, bid form number, number of equity shares applied for, date, bank and branch where the Bid was submitted and cheque, draft or Stockinvest number and issuing bank thereof.

**Despatch of Refund Orders**

The Company shall ensure despatch of refund orders of value over Rs.1,500 by registered post or speed post only and adequate funds for the purpose shall be made available to the Registrars to the Issue by the Company.

**Undertaking by the Company**

The Company undertakes:

a. that the complaints received in respect of this Issue shall be attended to by the Company expeditiously and satisfactorily;

b. that the Company shall take all steps for the completion of the necessary formalities for listing and commencement of trading at all the stock exchanges where the equity shares are to be listed within seven working days of finalisation of the basis of allotment;

c. that the funds required for despatch of refund orders or allotment advice by registered post or speed post shall be made available to the Registrar to the Issue by the Company;

d. that the refund orders or allotment advice to the NRIs, OCBs or FIIs shall be despatched within specified time;

e. that no further Issue of equity shares shall be made till the equity shares offered through this red herring prospectus are listed or until the Bid moneys are refunded on account of non-listing, under-subscription, etc.

**Utilisation of Issue Proceeds**

The Board of Directors of the Company certifies that:

a. all monies received out of this Issue of equity shares to the public shall be transferred to a separate Bank account other than the Bank account referred to in sub-section (3) of Section 73 of the Companies Act;

b. details of all monies utilised out of this Issue referred above shall be disclosed under an appropriate separate head in the balance sheet of the Company indicating the purpose for which such monies have been utilised;

c. details of all unutilised monies out of this Issue, if any, shall be disclosed under the appropriate separate head in the balance sheet of the Company indicating the form in which such unutilised monies have been invested;

Details of all unutilised monies out of the funds received under firm allotments and reservations shall be disclosed under a separate head in the balance sheet of the Company indicating the form in which such unutilised monies have been invested.

**The Company shall not have recourse to the Issue proceeds until approval for trading of equity shares from all the stock exchanges where listing is sought is received.**

**RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES**

Foreign investment in Indian securities is regulated through the industrial policy of the Government of India, or the Industrial Policy and FEMA. While the Industrial Policy prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy, unless specifically restricted, foreign investment is freely permitted in all sectors of Indian economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. When required, the government bodies responsible for granting foreign investment approvals are the Foreign Investment Promotion Board of the Government of India ("FIPB") and the RBI.

Currently, the Industrial Policy and FEMA stipulate that investing companies in the infrastructure sector such as Bharti Tele-Ventures require the prior approval of the FIPB for investments by persons resident outside India and that the ceiling on such foreign investments is 49% of the outstanding capital of the company.

Bharti Tele-Ventures has received the approval from FIPB for making allotment of equity shares to persons resident outside India. Similarly, Bharti Tele-Ventures has also received the approval from RBI to allot equity shares to FIIs on a repatriation basis up to a limit of 49% of post-issue capital. There is, therefore, no necessity for the non-resident Bidders to make separate applications seeking permission from the FIPB and RBI. However, it may be distinctly understood that there is no reservation for FIIs, NRIs or OCBs and in view of the SEBI Guidelines, the allotment and/or transfer to FIIs, NRIs or OCBs would be made in the manner detailed in the section on "Terms of the Issue".

The allotment of equity shares to the non-resident bidders shall be subject to RBI approval or any requisite permission as may be necessary under the FEMA.

**Investment by Non-Resident Indians and Overseas Corporate Bodies**

A variety of special facilities for making investments in India in shares of Indian Companies is available to individuals of Indian nationality or origin residing outside India ("NRIs") and to overseas corporate bodies ("OCBs"), at least 60% owned by such persons. These facilities permit NRIs to make portfolio investments in shares and other securities of Indian companies on a basis not generally available to other foreign investors. Under the portfolio investment scheme, NRIs are permitted to purchase and sell equity shares of the company through a registered broker on the stock exchanges. NRIs collectively should not own more than 10% of the post-offer paid up capital of the company. However, this limit may be increased to 24% if the shares of the company pass a special resolution to that effect. No single NRI or OCB may own more than 5% of the post-offer paid up capital of the company. NRI investment in foreign exchange is now fully repatriable whereas investments made in Indian Rupees through rupee accounts remains non-repatriable.

As per the RBI, Exchange Control Department Circular no AP(DIR Series) 13 dated November 29, 2001, OCBs are not permitted to invest under the portfolio investment scheme in India. However, OCBs would continue to be eligible for making foreign direct investment under FEMA and the regulations thereunder. Also, OCBs can sell their existing holding through a registered broker on the stock exchanges.

The Company has received approvals dated December 21, 2001 and January 10, 2002, from the Ministry of Industry (SIA/FIPB) and the RBI, respectively, for issuing equity shares to non-residents of Indian nationality or origin (NRIs)/OCBs (predominantly owned by NRIs)/FIIs with repatriation benefits.

**Investment by Foreign Institutional Investors**

Foreign Institutional Investors ("FIIs") including institutions such as pension funds, investment trusts, asset management companies, nominee companies and incorporated, institutional portfolio managers can invest in all the securities traded on the primary and secondary markets in India. FIIs are required to obtain an initial registration from the SEBI and a general permission from the RBI to engage in transactions regulated under FEMA. FIIs must also comply with the provisions of the SEBI (Foreign Institutional Investors) Regulations, 1995, as amended from time to time. The initial registration and the RBI's general permission together enable the registered FII to buy (subject to the ownership restrictions discussed below) and sell freely securities issued by Indian companies, to realise capital gains or investments made through the initial amount invested in India, to subscribe or renounce rights issues for shares, to appoint a domestic custodian for custody of investments held and to repatriate the capital, capital gains, dividends, income received by way of interest and any compensation received towards sale or renunciation of rights issues of shares.

**Ownership restrictions of FIIs**

Under the portfolio investment scheme, the overall issue of equity shares to FIIs on a repatriation basis should not exceed 24% of post-issue paid-up capital of the Company. However, the limit of 24% can be raised upto the permitted sectoral cap for that company after approval of the Board of Directors and shareholders of the company. The offer of equity shares to a single FII should not exceed 10% of the post-issue paid-up capital of the Company. In respect of an FII investing in equity shares of a company on behalf of its sub-accounts, the investment on behalf of each sub-account shall not exceed 10% of the total issued capital of that company.

Under the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997,as amended, or Takeover code, upon the acquisition of more than 5.0% of the outstanding shares or voting rights of a listed public Indian company, a purchaser is required to notify the company, and the company and the purchaser are required to notify all the stock exchanges on which the shares of such company are listed. Upon the acquisition of 15.0% or more of such shares or voting rights or a change in control of the company, the purchaser is required to make an open offer to the other shareholders offering to purchase at least 20.0% of all the outstanding shares of the company at a minimum offer price as determined pursuant to the Takeover Code.

The above information is given for the benefit of the bidders and neither the Company nor BRLMs are liable for any modifications that may happen after the date of this red herring prospectus.

## DIVIDEND POLICY

We have not declared or paid any cash dividends on our equity shares since inception and do not expect to pay any cash dividends for the foreseeable future. We currently intend to retain future earnings, if any, to finance the expansion of our business. Investors seeking cash dividends should not purchase our shares. Bharti Tele-Ventures is a holding company and is dependent on dividends from its subsidiaries to pay its dividends. Bharti Tele-Ventures's only source of cash flow (other than income from short term investments) is its proportionate share of distributions, if any, paid by its subsidiaries. Covenants in Bharti Tele-Ventures's and its subsidiaries' financing arrangements and shareholders agreements limit its ability to declare or pay cash dividends to its shareholders. For example, the existing shareholders agreement of Bharti Tele-Ventures restricts Bharti Tele-Ventures' ability to establish or amend the dividend policy or declare or pay dividends unless the affirmative vote of directors of Warburg Pincus and SingTel is received.

# BASIS FOR ISSUE PRICE

The Issue Price has been determined by the Company in consultation with the BRLMs, on the basis of an assessment of market demand for the offered equity shares by way of book building process.

You should read the following summary with the Risk Factors included from page number i to xiv and the more detailed information about us and our financial statements included in this red herring prospectus. The trading price of our equity shares could decline due to these risks and you may lose all or part of your investment.

**Qualitative factors**

***Factors external to the Company***

- Indian telecommunications market is large, under-penetrated and offers growth opportunities to large and diversified telecommunications companies. It has grown at a compounded annual growth rate of approximately 80% in the period March 1997 to March 2001.
- COAI and Gartner estimate the number of cellular subscribers in India will grow to approximately 50 million and 31 million, respectively, by 2005.
- A positive regulatory environment has liberalised new markets like national long distance. The international long distance voice market is expected to be opened by April 2002.

***Factors internal to the Company***

- Bharti Tele-Ventures is a leading telecommunications services provider with approximately 1,340,000 customers as of November 30, 2001, predominantly in the cellular business spanning across six circles in the country, including three metropolitan areas.
- Bharti Tele-Ventures has cellular operations in six circles and intends to expand its cellular services to cover nine new circles. As of November 30, 2001, approximately 92% of India's total cellular subscriber market resided in our existing and proposed cellular circles.
- A quality management team with vision and proven execution skills.
- A strong relationship with international strategic and financial partners, such as SingTel, Warburg Pincus, International Finance Corporation, Asian Infrastructure Fund and New York Life.

**Quantitative Factors**

*[would be completed prior to filing of the Prospectus with RoC]*

1. Earning per equity share (EPS) of face value of Rs.10

   (as per Unconsolidated Indian Accounting Standard)

| Year | EPS (Rs.) | Weight |
|---|---|---|
| FY1999 | 0.11 | 1 |
| FY2000 | 0.12 | 2 |
| FY 2001 | 0.02 | 3 |
| 1 H FY2002 | 0.12 | 4 |
| **Weighted Average** | 0.10 | - |

EPS for the financial years 1999,2000,2001 and the six month period ended September 30, 2001 (on an annualised basis) as per consolidated IAS is negative, thereby making the calculation of EPS as not meaningful.

2. Price/Earning Ratio (P/E) in relation to Issue Price of Rs.[●]

   Based on financial year 2001 EPS (annualised) of Rs.0.12 (as per unconsolidated Indian Accounting Standard) - [●]

   EPS (annualised) (as per unconsolidated IAS is negative, thereby making the calculation of P/E ratio not meaningful.

3. Return on Net Worth (RONW).

   (as per Unconsolidated Indian Accounting Standard)

| Year | RONW (%) | Weight |
|---|---|---|
| FY1999 | 0.27 | 1 |
| FY2000 | 0.15 | 2 |
| FY2001 | 0.02 | 3 |
| 1H FY2002 | 0.26 | 4 |
| **Weighted Average** | 0.17 | |

As earnings for the financial years 1999, 2000, 2001 and the six month period ended September 30, 2001 as per Consolidated IAS is negative, the calculation of RONW is not meaningful

4. Minimum Return on Total Net Worth after Issue needed to maintain pre-issue EPS — not a meaningful comparison.

5. Net Asset Value (NAV)

   (As per unconsolidated Indian Accounting Standard, NAV = (Shareholders' equity less miscellaneous expense) as divided by Number of shares

   As at March 31, 2001 (adjusted for bonus) : Rs. 14.28 per share

   As at September 30, 2001(post-bonus) : Rs. 24.23 per share

   (a) After Issue - [●]
   (b) Issue Price - [●]

   (As per consolidated IAS, NAV = (Shareholders' equity) as divided by (Number of shares less shares issued to Employee Trust)

   As at March 31, 2001 (adjusted for bonus) : Rs. 15.82 per share
   As at September 30, 2001 (post-bonus) : Rs. 25.14 per share

   (a) After Issue - [●]
   (b) Issue Price - [●]

The Issue Price of Rs.[·] has been determined on the basis of the demand from investors through the Book-Building Process and is justified based on the above accounting ratios.

# TAX BENEFITS

The Company has been advised by *Pricewaterhouse Coopers*, Chartered Accountants, that under the current tax laws, the following tax benefits *inter-alia*, will be available to the Company and the shareholders of the Company. A shareholder is advised to consider in his own case the tax implications of an investment in the shares.

**Benefits under the Income-tax Act, 1961**

***To the Company***

- Interest income accruing to the company on long-term finance (repayable after minimum 5years) extended to enterprises engaged in the infrastructure business (including telecommunication services) and approved by the Central Government will be exempt from tax, subject to conditions prescribed by section 10(23G) of the Income-tax Act, 1961.
- Long-term capital gains accruing to the company from sale of shares of enterprises engaged in the infrastructure business (including telecommunication services) will be exempt from tax, subject to conditions prescribed by section 10(23G) of the Income-tax Act, 1961. Gain on sale of shares qualifies as long-term gains if the shares are sold after a minimum 12 month holding period.
- Dividend received by the company from other Indian companies will be exempt from tax.

**To the Resident Members of the Company**

- Dividend received by the shareholder from the company will not be liable to tax.
- Under section 112 of the Income-tax Act, 1961 and other relevant provisions of the Act, Long term capital gains arising on transfer of shares in the Company i.e. if shares are held for a period exceeding 12 months shall be concessionally taxed at the flat rate of 20% (plus applicable surcharge) (after indexation as provided in the second proviso to section 48) or at 10% (plus applicable surcharge) (without indexation), at the option of the shareholder.
- In terms of section 10(23D) of the Income-tax Act, 1961 all Mutual Funds set up by Public Sector Banks or Financial Institutions or Mutual Funds registered under the Securities and Exchange Board of India or authorised by the Reserve Bank of India, subject to the conditions specified, will be exempt from income tax on all their income, including income from investment in the shares of the company.
- Under section 54EC of the Income-tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain are invested for a period of 3 years in bonds issued by National Bank for Agriculture and Rural Development or National Highway Authority of India or Rural Electrification Corporation Limited, within a period of 6 months after the date of such transfer.
- **Under section 54ED of the Income-tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain are invested in shares forming part of IPO, within a period of 6 months after the date of such transfer.Under section 54F of the Income Tax Act, 1961 long term capital gains arising to an individual or Hindu Undivided Family (HUF on transfer of shares of the company will be exempt from capital gain tax subject to other conditions, if the sale proceeds from such shares are used for purchase of residential house property within a period of one year before and two year after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.**

**To the Non-Resident Indians/ Non Residents**

***(Other than FIIs and Foreign venture capital investors)***

1. A Non-Resident Indian (i.e. an individual being a citizen of India or person of Indian origin) has an option to be governed by the provisions of Chapter XII-A of the Income-tax Act, 1961.
   a) Under section 115E of the Income-tax Act, 1961 capital gains arising to a non-resident on transfer of shares in the company subscribed to in convertible Foreign Exchange and held for a period exceeding 12 months shall be concessionally taxed at the flat rate of 10%. (Without indexation benefit) (Plus applicable Surcharge).
   b) Under provisions of section 115F of the Income-tax Act, 1961 long term capital gains arising to a non-resident Indian from the transfer of shares of the company subscribed to in convertible Foreign Exchange shall be exempt from Income tax, if the net consideration is reinvested in specified assets within six months of the date of transfer. If only part of the net consideration is so reinvested, the exemption shall be proportionately reduced. The amount so exempted shall be chargeable to tax subsequently, if the specified assets are transferred or converted within three years from the date of their acquisition.
   c) Under provisions of section 115G of the Income-tax Act, 1961 it shall not be necessary for a Non-Resident Indian to furnish his return of income if his only source of income is investment income or long term capital gains or both arising out of assets acquired, purchased or subscribed in convertible foreign exchange and tax deductible at source has been deducted therefrom.
   d) Under section 115I of the Income-tax Act, 1961, a Non-Resident Indian may elect not to be governed by the provisions of Chapter XII-A for any Assessment Year by furnishing his Return of Income under section 139 of the Income-tax Act declaring therein that the provisions of the chapter shall not apply to him for that assessment year and if he does so the provisions of this chapter shall not apply to him instead the other provisions of the Act shall apply.
2. Under the first proviso to section 48 of the Income-tax Act, 1961, in case of a non-resident, in computing the capital gains arising from transfer of shares of the company acquired in convertible foreign exchange (as per exchange control regulations) protection is provided from fluctuations in the value of rupee in terms of foreign currency in which the original investment was made. Cost indexation benefits will not be available in such a case.
3. Under section 112 of the Income-tax Act, 1961 and other relevant provisions of the Act, Long term capital gains arising on transfer of shares in the Company i.e. if shares are held for a period exceeding 12 months shall be concessionally taxed at the flat rate of 20% (plus applicable surcharge) (after indexation as provided in the second proviso to section 48) or at 10% (plus applicable surcharge) (without indexation), at the option of the shareholder. No surcharge applicable to foreign company.

4. Dividend declared, distributed or paid by the company would be exempt from tax in the hands of shareholders.
5. Under section 54EC of the Income-tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain are invested for a period of 3 years in bonds issued by National Bank for Agriculture and Rural Development or National Highway Authority of India or Rural Electrification Corporation Limited, within a period of 6 months after the date of such transfer.
6. Under section 54ED of the Income-tax Act, 1961 and subject to the conditions and to the extent specified therein, long term capital gains arising on the transfer of shares of the Company will be exempt from capital gains tax if the capital gain are invested in shares forming part of IPO, within a period of 6 months after the date of such transfer.
7. Under section 54F of the Income-tax Act, 1961 long term capital gains arising to an individual or Hindu Undivided Family (HUF) on transfer of shares of the company will be exempt from capital gain tax subject to other conditions, if the sale proceeds from such shares are used for purchase of residential house property within a period of one year before and two year after the date on which the transfer took place or for construction of residential house property within a period of three years after the date of transfer.

**To Foreign Institutional Investors (FIIs)**

- The income by way of short term capital gains or long term capital gains realized by FIIs on sale of shares in the company would be taxed at the following rates as per section 115AD of the Income-tax Act, 1961.
- Short term capital gains – 30% (Plus applicable surcharge*)
- Long term capital gains – 10% (without cost indexation) (Plus applicable surcharge*)

  *(No surcharge is applicable to foreign companies)

  Shares held in a company would be considered as a long term capital asset provided they are held for a period exceeding 12 months.
- Dividend declared, distributed or paid by the company would be exempt from tax in the hands of shareholders.

**To Venture Capital Companies/ Funds**

- In terms of section 10(23FB) of the Income-tax Act, 1961 all Venture capital companies/ funds registered with Securities and Exchange Board of India, subject to the conditions specified, will be exempt from income tax on all their income, including income from sale of shares of the company.

**Benefits under the Wealth Tax Act, 1957**

Shares of the company held by the shareholder will not be treated as an asset within the meaning of section 2(ea) of Wealth Tax Act, 1957, hence Wealth Tax Act will not be applicable.

**Benefits under the Gift Tax Act, 1958**

Gift of shares of the company made on or after October 1, 1998 would not be liable to Gift tax.

***Notes***

- *The company has subsidiaries, which are engaged in telecommunication business eligible to benefits u/s 80IA subject to the satisfaction of the conditions mentioned therein. 100% of the business profits of these subsidiaries are deductible from the taxable income for the first five years and 30% is deductible for the next five years. The said deduction is available at the option of the subsidiary companies for any ten consecutive years out of fifteen years beginning from the year in which it starts providing telecommunication services.*
- *All the above benefits will be available only to the sole/first named holder in case the shares are held by joint holders.*
- *In respect of non-residents, the tax rates and the consequent taxation mentioned above shall be further subject to any benefits available under the Double Taxation Avoidance Agreements, if any, between India and the country in which the non-resident has fiscal domicile.*

In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his/her participation in the scheme.

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## INDIAN ACCOUNTING STANDARD UNCONSOLIDATED FINANCIAL STATEMENT

To

The Board of Directors
Bharti Tele-Ventures Limited
H-5/12 Qutab Ambience
Meharauli
New Delhi – 100 030

Re.: Initial Public Offering of Bharti Tele-Ventures Limited

Dear Sirs,

We have examined the financial information of Bharti Tele-Ventures Limited ("the Company" /"BTVL"), as attached to this report stamped and initialled by us for identification and as approved by the Board of Directors of the Company, which has been prepared in accordance with Part II of Schedule II of the Companies Act, 1956 ('the Act') and the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines 2000 ('the Guidelines') issued by the Securities and Exchange Board of India ('SEBI') on January 19, 2000 in pursuance to Section 11 of the Securities and Exchange Board of India Act, 1992 and the related Clarifications XIII and XIV issued by SEBI, and in accordance with your instructions dated November 1, 2001 received from the Company requesting us to carry out work in connection with the Offer Document being issued by the Company in connection with its Initial Public Offering of Equity Shares in the Company (referred to as 'the Issue').

**A. Financial information as per the audited financial statements**

We have examined the attached restated Balance Sheets of the Company as at September 30, 2001, March 31, 2001, March 31, 2000, March 31, 1999, March 31, 1998 and March 31, 1997 (Annexure II) and the attached restated statements of Profit and Loss Account for each of the years / periods ended on those dates (Annexure I), together referred to as 'summary statements'. We have also examined and found correct the accounts of the Company for the period from April 1, 2001 to September 30, 2001 prepared and approved by the Board of Directors of the Company. These summary statements, have been extracted from the financial statements for these periods / years audited by us and have been adopted by the Board of Directors / members for the respective years. Based on our examination of these summary statements we confirm that:

1. The summary statements of the Company have been restated with retrospective effect to reflect the significant accounting policies of the Company (as disclosed in Annexure III to this report) as adopted by the Company as at September 30, 2001;
2. There are no material adjustments relating to previous period, which need to be adjusted in summary statement in the period to which they relate;
3. Qualifications in the auditors' reports, which have not been adjusted in the financial statements are reported in Annexure IV (2) (b) & Annexure IV (2) (c); and
4. There are no extraordinary items, which need to be disclosed separately in the summary statements.

Summary of significant transactions of Sale, Purchase, Income and Expenditure of the Company with Promoters and Promoters Group and particulars of loans and advances to Promoters and Promoters Group disclosed in Annexure IV (15) is as certified by the Company.

Also attached are restated summary financial statements of subsidiaries of the Company for the years/period as set out in Annexure X to this report as adopted by the Board of Directors of the respective subsidiary companies. We have accepted the relevant restated summary financial statements in respect of entities listed in Annexure X to this report relating to the subsidiaries of the Company for the five financial years ended March 31, 2001 and for the period ended September 30, 2001, which were audited by us/other auditors as mentioned therein. In respect of the relevant summary financial statements for the period ended September 30, 2001, the respective auditors have reported that the said financial statements are true and correct and the said restated financial statements have been prepared in accordance with Part II of Schedule of the Act and the Guidelines issued by SEBI on January 19, 2000 in pursuance of Section 11 of the Securities and Exchange Board of India Act, 1992 and the related clarification XIII and XIV issued by SEBI. The Company has not enclosed the financial statements of a fully owned entity (Evergrowth Telecom Limited) of the Company's subsidiary (Bharti Mobile Limited) as the entity is not controlled by the Company's subsidiary, as explained in clause (c) note IV (2) of Appendix C to this report. The financial statements of the Company's subsidiaries have not been consolidated into the attached summary statements of the Company and are enclosed as Appendix – A to Appendix – O to this report. In case of the subsidiaries whose beneficial ownership entirely vests with the Company, the assets and liabilities and profit or loss as applicable, of such subsidiaries in the aforementioned financial statements entirely concern the members of the Company. In case of other subsidiaries, as losses applicable to the minority exceed the interest of the minority in the equity, the net minority interest therein is nil and accordingly no allowance is to be made for such minority interest in the aforesaid financial statements. Accordingly, all assets, liabilities and losses of such subsidiaries in the aforesaid financial statements entirely concern the members of the Company.

**B. Other financial information**

We have examined the following financial information relating to BTVL proposed to be included in the Offer Document, as approved by you and annexed to this report:

(i) Summary of accounting ratios based on the adjusted profits relating to earnings per share, net asset value and return on net worth is enclosed as Annexure V;

(ii) Capitalisation statement of the Company is enclosed as Annexure VI;

(iii) Statement of taxation is enclosed as Annexure VII;

(iv) Details of items of other income which exceed 20 per cent of net profit before tax are enclosed as Annexure VIII;

(v) Statement of Cash Flow of BTVL enclosed as Annexure IX.

We confirm that the Company has not paid dividend for any financial year since inception.

In our opinion, the financial information of the Company, as attached to this report as mentioned in paragraphs (A) and (B) above read with respective significant accounting policies, after making groupings and adjustments and subject to non adjustment of certain matters as stated in notes to accounts, have been prepared in accordance with Part II of Schedule II of the Act and the Guidelines issued by SEBI on January 19, 2000 in pursuance of Section 11 of the Securities and Exchange Board of India Act, 1992 and the related clarifications XIII and XIV issued by SEBI.

This report is intended solely for your information and for inclusion in the Offer Document in connection with the Issue of the Company and is not to be used, referred to or distributed for any other purpose without our prior written consent.

Yours faithfully,

**D. Kapoor**
*Partner*
For and on behalf of
**Price Waterhouse**
*Chartered Accountants*

New Delhi
Date: January 11, 2002

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## ANNEXURE –I

## BHARTI TELE-VENTURES LIMITED

**SUMMARY PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BTVL for five financial years ended March 31, 2001 and for the period April 1, 2001 to September 30, 2001, read with significant accounting policies (Refer Annexure III below), after making groupings and adjustments and subject to non adjustment of certain matters as stated in notes to accounts (Refer Annexure IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| **INCOME** | | | | | | |
| Interest on Bonds & Govt. Securities | 124,170 | 144,413 | 44,371 | 11,313 | 24,915 | 26,947 |
| Interest on Call Money | | - | 34,619 | - | - | - |
| Interest Others | 8,746 | 95,492 | 6,796 | 12,692 | 71,468 | 162,093 |
| Profit on Sale of Securities | 247,342 | 30,902 | 32,643 | 9,734 | 14,437 | - |
| Lease rentals | 3,664 | 34,542 | 29,182 | 13,285 | 6,960 | 1,740 |
| Profit on Sale of Long Term Investments | 150,300 | 252,045 | - | - | - | - |
| Other Income | 25,541 | 21,074 | 9,201 | 8,979 | 123 | 112 |
| **Total Income** | **559,763** | **578,468** | **156,812** | **56,003** | **117,903** | **190,892** |
| **EXPENDITURE** | | | | | | |
| Personnel Expenses | 101,568 | 82,740 | 19,230 | 13,189 | 2,820 | 640 |
| Other Expenses | 163,676 | 161,143 | 45,489 | 23,435 | 20,307 | 52,060 |
| **Total Expenditure** | **265,244** | **243,883** | **64,719** | **36,624** | **23,127** | **52,700** |
| **Profit/(Loss) (EBITDA)** | **294,519** | **334,585** | **92,093** | **19,379** | **94,776** | **138,192** |
| Financial Expenses | 14,774 | 289,987 | 52,749 | 1,343 | 1,700 | 102 |
| Amortisation | 10,290 | 4,212 | 4,506 | 25,785 | 6,003 | 1,568 |
| **Profit/(Loss) before Depreciation and Tax** | **269,455** | **40,386** | **34,838** | **(7,749)** | **87,073** | **136,522** |
| Depreciation | 165,093 | 34,534 | 24,323 | 9,068 | 6,297 | 1,632 |
| **Net Profit/(Loss) before Tax** | **104,362** | **5,852** | **10,515** | **(16,817)** | **80,776** | **134,890** |
| Provision For Tax | - | 2,000 | 2,500 | - | 17,000 | 42,500 |
| **Net Profit/(Loss) as per audited statement of Account (A)** | **104,362** | **3,852** | **8,015** | **(16,817)** | **63,776** | **92,390** |
| **Adjustments :** | | | | | | |
| Adjustment on account of changes in accounting policies (Refer Annexure IV (1)) | - | - | - | 22,429 | 3,566 | (25,368) |
| Impact of material adjustments and prior period items. (Refer Note IV (1)) | - | 2,345 | (3,274) | 7,592 | (5,745) | (12,822) |
| **Total Adjustments (B)** | **-** | **2,345** | **(3,274)** | **30,021** | **(2,179)** | **(38,190)** |
| **Adjusted Profit/(Loss) (A+B)** | **104,362** | **6,197** | **4,741** | **13,204** | **61,597** | **54,200** |
| Carry Forward Profit/(Loss) from Previous Year | 139,272 | 133,075 | 128,334 | 115,130 | 53,533 | (667) |
| **Profit/(Loss) transferred to Balance Sheet** | **243,634** | **139,272** | **133,075** | **128,334** | **115,130** | **53,533** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

# ANNEXURE – II

## BHARTI TELE-VENTURES LIMITED

### SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED

Assets and Liabilities of BTVL as at the end of each financial year and at the end of six months ended September 30, 2001 read with significant accounting policies (Refer Annexure III below), after making groupings and adjustments and subject to non adjustment of certain matters as stated in notes to accounts (Refer Annexure IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | | |
| **Fixed Assets** | | | | | | |
| Gross Block | 409,499 | 247,299 | 216,411 | 160,328 | 116,725 | 107,846 |
| Less: Depreciation | 238,347 | 73,976 | 41,320 | 16,997 | 7,929 | 1,632 |
| Net Block | 171,152 | 173,323 | 175,091 | 143,331 | 108,796 | 106,214 |
| Capital Work In Progress | 112,702 | 43,553 | - | - | 28,657 | - |
| **Total** | **283,854** | **216,876** | **175,091** | **143,331** | **137,453** | **106,214** |
| **Investments :** | | | | | | |
| Non Trade Investments | 332,139 | 1,513,637 | 1,664,325 | 125,834 | 116,945 | 340,775 |
| Long Term trade unquoted | 14,020,230 | 6,431,091 | 1,585,200 | 1,555,500 | 619,650 | 550,500 |
| **Total** | **14,352,369** | **7,944,728** | **3,249,525** | **1,681,334** | **736,595** | **891,275** |
| **Current Assets** | | | | | | |
| Cash & Bank Balances | 178,718 | 132,956 | 1,126 | 12,715 | 108,170 | 23,991 |
| Loans & Advances | 27,453,442 | 8,806,033 | 4,101,031 | 409,974 | 1,244,401 | 1,117,612 |
| **Total (A)** | **27,632,160** | **8,938,989** | **4,102,157** | **422,689** | **1,352,571** | **1,141,603** |
| **Current Liabilities** | | | | | | |
| Sundry Creditors | 302,456 | 417,041 | 44,915 | 139,311 | 121,097 | 102,752 |
| Provisions | 14,296 | 13,098 | 14,427 | 11,007 | 21,690 | 14,105 |
| **Total (B)** | **316,752** | **430,139** | **59,342** | **150,318** | **142,787** | **116,857** |
| **Net Current Assets (A)-(B)** | **27,315,408** | **8,508,850** | **4,042,815** | **272,371** | **1,209,784** | **1,024,746** |
| Miscellaneous Expenditure (To the extent not written off or adjusted) | **112,059** | **-** | **-** | **-** | **-** | **-** |
| **TOTAL** | **42,063,690** | **16,670,454** | **7,467,431** | **2,097,036** | **2,083,832** | **2,022,235** |
| **SOURCES OF FUNDS** | | | | | | |
| **Loan Funds** | | | | | | |
| Secured Loans | 4,494 | - | 2,000,000 | - | - | - |
| Unsecured Loans | 1,533,257 | - | - | - | - | - |
| **Total** | **1,537,751** | **-** | **2,000,000** | **-** | **-** | **-** |
| **Share Capital & Reserves** | | | | | | |
| Share Capital | 16,680,301 | 1,062,351 | 656,250 | 500,000 | 500,000 | 500,000 |
| Advance Share Application Money | - | 463,144 | - | - | - | 0 |
| Share Premium | 23,602,004 | 15,005,687 | 4,678,106 | 1,468,702 | 1,468,702 | 1,468,702 |
| Reserve & Surplus | 243,634 | 139,272 | 133,075 | 128,334 | 115,130 | 53,533 |
| **Total** | **40,525,939** | **16,670,454** | **5,467,431** | **2,097,036** | **2,083,832** | **2,022,235** |
| **TOTAL** | **42,063,690** | **16,670,454** | **7,467,431** | **2,097,036** | **2,083,832** | **2,022,235** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

## ANNEXURE – III

**STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**1. FIXED ASSETS:**

Fixed Assets are stated at cost of acquisition and subsequent improvements thereto, including taxes, duties, freight, freight and other incidental expenses related to acquisition and installation.

**2. DEPRECIATION:**

Depreciation is provided on straight-line method to write off the cost of fixed assets over their estimated useful lives as below:

| Assets | Estimated Life (in years) |
|---|---|
| Building | 20 |
| Plant & Machinery | 10 |
| Computer | 3 |
| Vehicles | 5 |
| Office Equipment | 5 |
| Handsets | 3 |
| Furniture & Fixture | 5 |

**3. REVENUE RECOGNITION:**

Income on account of interest and other activities is recognised on an accrual basis.

**4. INVESTMENTS:**

Long term investments are carried at cost. Provision is made for diminution in value to recognise a decline, if any, other than of temporary nature. Current investments are carried at lower of cost or fair market value.

**5. MISCELLANEOUS EXPENDITURE:**

The shares issue expenses, software expenses etc. is written off in the year of expense.

**6. FOREIGN EXCHANGE FLUCTUATION:**

Transactions in Foreign currency are recorded at the exchange rate prevailing at the date of the transaction. Monetary items are restated at year-end foreign exchange rates. Resultant exchange difference arising on payment or conversion of liabilities are recognised as income or expense in the year in which they arise, except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed assets.

**7. RETIREMENT BENEFITS:**

The Company has provided for the liability on account of unavailed earned leave and gratuity payable to its employees under the Payment of Gratuity Act as per actuarial valuation.

**8. TAXES ON INCOME:**

Tax expenses for the period, comprising current tax and deferred tax is included in determining the net profit/(loss) for the period.

However, in the year of transition, the accumulated deferred tax liability at the beginning of the year has been recognised with a corresponding charge to the Reserve in accordance with Accounting Standard 22 issued by the Institute of Chartered Accountants of India.

Deferred income-taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income-tax purposes. Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted by the balance sheet date.

**9. EMPLOYEE STOCK OPTION:**

The aggregate amount of liability on account of Employee Stock Option Plan as ascertained at year end is being carried forward as Deferred Employee Compensation Benefit under Miscellaneous Expenditure to be written off on a straight line basis over the related vesting period of individual options.

**10. LEASES:**

**As Lessee – Operating Lease**

Lease rentals in respect of assets taken on ‘Operating Lease’ are changed to the Profit and Loss Account on an accrual basis.

**As Lessee – Finance Lease**

Assets taken on ‘Finance Lease’ are accounted for as fixed assets. Lease rentals payables are apportioned between principal and interest using the internal rate of return (IRR) method and finance charge is recognised accordingly.

# ANNEXURE – IV

## NOTES TO ACCOUNTS

### 1. Adjustments/ Regroupings

**Impact of Change in Accounting Policies**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|---|
| Profit/(Loss) as per audited statements of accounts | A | **104,362** | **3,852** | **8,015** | **(16,817)** | **63,776** | **92,390** |
| **Adjustment on account of :** | | | | | | | |
| ***Changes in Accounting Policy:*** | | | | | | | |
| Miscellaneous Expenditure | B | - | - | - | 22,429 | 3,566 | (25,368) |
| Deferred Tax Adjustments | C | - | 2,345 | (3,274) | 7,592 | (5,745) | (12,822) |
| **Adjusted Profit / (Loss)** | **(A) + (B) + (C)** | **104,362** | **6,197** | **4,741** | **13,204** | **61,597** | **54,200** |

**Notes :**

a) Upto the year ended March 31, 1998 the Company followed the policy of amortising the preliminary expenditure over the period of 10 years and the software expenses over 5 years. In 1999 the Company changed its policy to amortising all such miscellaneous expenditure in the year the expenditure is incurred. Accordingly each years' related expenditure has been charged of in respective year for the restatement.

b) The Company has accounted for deferred tax liability for earlier years in order to comply with provisions of mandatory Accounting Standard – 22 "Taxes on Income" issued by the Institute of Chartered Accountants of India.

### 2. Non Adjustments/ Regroupings

**a) Impact of changes in Accounting Estimates**

Upto year 1998-99, Depreciation was provided on a straight line basis at the rates and in the manner prescribed in Schedule XIV of the Indian Companies Act, 1956. In 1999-2000, the Company revised the useful life estimates of the fixed assets and provided depreciation on a straight line basis as per the revised estimates of useful life specified in Statement Accounting policies (Annexure - III), above, resulting in additional charge on account of depreciation of Rs. 15.37 million, with a consequential impact on the profit for the year ended March 31, 2000 and the net assets of the Company in accordance with Accounting Standard – 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and Accounting Standard – 6 "Depreciation Accounting" issued by the Institute of Chartered Accountants of India.

**b) Qualification in the Auditors' Report regarding remuneration to director in excess of limit specified by the Companies Act, 1956.**

The Company had paid Rs. 245,116 and Rs. 319,627 in the year 1998-99 and 1999-2000 respectively to a Director, which was in excess of remuneration payable under Section 198 of the Companies Act, 1956. The excess payment is pending Central Government approval and the same has not been adjusted in these financial statements.

**c) Qualification in the Auditors' Report relating to non-adjustment of ESOP expenditure for the year due to variation in the IPO issue price of shares as compared to the price at which shares have been allotted to the ESOP trust.**

The employees of the company have been granted options vide an employee stock option plan for the employees of Bharti Televentures Limited and its subsidiaries on April1, 2001. The Company has allotted equity shares to Bharti Tele-ventures Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the Initial Public Offering (IPO) price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the Company, the amount of which is presently not ascertainable.

### 3. Details of Share Capital

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| **Authorised Capital** | | | | | | |
| Equity shares @ Rs. 10 each | 25,000,000 | 1,100,000 | 800,000 | 700,000 | 700,000 | 700,000 |
| **Issued, Subscribed and fully paid up equity shares @ Rs. 10 each** | 16,680,301 | 1,062,351 | 656,250 | 500,000 | 500,000 | 500,000 |
| **Advance against equity** | - | 463,144 | - | - | - | - |
| **Share Premium account** | 23,602,004 | 15,005,687 | 4,678,106 | 1,468,702 | 1,468,702 | 1,468,702 |

4. **Details of Secured Loans**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| 14% Non-Convertible Debentures - Issued to IDFC | | - | 2,000,000 | - | - | - |
| Loan from ICICI Bank ((Secured by way of hypothecation of vehicles taken on lease) | 4,494 | | | | | |
| **Total** | **4,494** | **-** | **2,000,000** | **-** | **-** | **-** |

**Security provided for redemption of Non Convertible Debentures (redeemed during the year ended March 31, 2001)**

a) A first mortgage and charge in favour of the debenture holders/the trustees of all the immovable properties in the state of Maharashtra, present & future.

b) Pledge by Bharti Telecom Ltd. (BTL) in favour of the debenture holders of not less than 51% of the shares in the capital of the Company.

c) Negative lien on shares held by BTL in the capital of the Company excluding shares required to be pledged.

d) Pledge in favour of the debenture holders of all the shares acquired by the Company through the proposed acquisition of shares and controlling interest in Bharti Mobinet Limited formerly (Skycell Communication Limited) and Bharti Mobile Limited (formerly JT Mobiles Limited) and/or its promoter companies.

e) Charge/Lien in favour of the trustees on future cash flow receivables of the Company on account of future issue of shares of the company.

f) Charge/ lien in favour of the debenture holders on all the dividend income receivable by the Company.

5. **Sundry Debtors**

There were no sundry debtors outstanding at the end of any of the previous financial years.

6. **Details of Unsecured Loans**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| **Long Term Loans :** | | | | | | |
| - From HDFC Limited | 500,000 | - | - | - | - | - |
| - From Bharti Telecom Limited, the Holding Company | 29,076 | - | | | | |
| - Interest accrued and due | 4,181 | - | - | - | - | - |
| **Short Term Loans :** | | | | | | |
| - From HDFC Limited | 1,000,000 | - | - | - | - | - |
| **Total** | **1,533,257** | **-** | **-** | **-** | **-** | **-** |

7. **Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| (a) Contingent Liabilities on account of | | | | | | |
| (I) Guarantees issued by bank | 9,519,480 | 1,708,670 | 1,793,100 | 1,116,500 | 500,000 | - |
| (II) Claims against Company not acknowledged as debts | | | | | | |
| - Income Tax | 15,750 | 50,150 | 44,100 | 2,800 | - | - |
| - Others | 7,340 | - | - | - | - | - |
| (b) Capital Commitments Estimated amount of contracts remaining to be executed on capital accounts (net of advances) | 267,140 | 348,930 | - | 4,300 | 8,310 | - |

c) Since March 31, 1996 the Company has given an undertaking to a financial institution for non-disposal of its shareholding in Bharti Cellular Limited in consideration of financial assistance given by them.

d) The Company had pledged securities and deposits of Rs.169.36 million as on March 31, 1997 and Rs. 80 million as on March 31, 1998 for the financial and performance guarantees for Bharti Telenet Limited.

e) Since March 31, 1999 the Company has given an undertaking to financial institutions for non-disposal of its shareholding in Bharti Telenet Limited and Bharti Cellular Limited in consideration of financial assistance given to subsidiaries by financial institutions.

f) Since March 31, 1999 the Company has pledged shares held by it in Bharti Telenet Limited with IDBI and IDFC as security for long term loans given by the financial institutions to Bharti Telenet Limited.

g) As on March 31, 2000 the Company had pledged its investments of Rs. 180.03 million in Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited, in favour of financial institutions for financial assistance received from them by Bharti Mobile Limited.

h) As on March 31, 2001 the Company had pledged shares of face value of Rs. 8.11 million held by it in S.C. Cellular Holdings Limited with IDFC as security for long term loan given by financial institutions to Bharti Mobile Ltd.

8. a) The employees of the Company have been granted options vide an employee stock option plan for the employees of Bharti Televentures Limited and its subsidiaries on April1, 2001. The Company has allotted 1,440,000 equity shares to Bharti Tele-ventures Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the Initial Public Offering (IPO) price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the Company, the amount of which is presently not ascertainable.

The Company has advanced an amount of Rs 147.40 million to the ESOP Trust towards total cost of equity shares to be allotted to its employees at the price at which the shares have been issued to the trust

b) The expenditure on ESOP plan as presently ascertained has been recognised as an expense in these accounts as explained in Note 9 on Annexure III; the adjustment required therein due to the variation in the IPO issue price as compared to the predetermined price as explained in para (a) above, which is presently not ascertainable will be made in the accounts for the subsequent year.

9. In view of the net loss expected to incur by the Company during remaining period of the current financial year, no provision for Income Tax has been made in these accounts. Accordingly, the Company on a conservative basis has not accounted for deferred tax on current period profit.

10. The Company has filed a scheme of amalgamation with the Honorable High Courts of Delhi and Karnataka under Sec. 391 to 394 of the Companies Act, 1956 for merger of its Subsidiaries Bharti BT Internet Ltd. (the transferee Company) and Bharti Telespatial Ltd., Bharti Broadband Networks Ltd. and Bharti BT Ltd. (transferor Companies). Under the scheme, with effect from the appointed date (i.e. April 1, 2001) the transferor Companies will dissolve without winding up and merge with the transferee Company. The name of the transferee Company will be changed to Bharti Broadband Networks Ltd.

Under the provisions of the scheme, with effect from the appointed date and upto the date the scheme comes into effect, the transferor Companies shall be deemed to have been carrying on all operations and activities on behalf of the transferee Company and stand possessed of the properties so to be transferred in trust for the transferee Company. Also, all profits accruing to transferor Companies (including taxes) or losses incurred shall be treated as profits or losses of the transferee Company.

11. The Company had during the period, purchased 49% stake in Bharti Mobinet Limited (formerly Skycell Communication Limited) from BellSouth International (Asia/Pacific) Inc. and Millicom International Cellular SA and sold the same to a wholly owned subsidiary at cost taking the effective holding of the Company to 89.5%. DSS Enterprises Pvt. Ltd. ("DSS"), the remaining 10.5% equity holder of Bharti Mobinet had earlier in May 2000 agreed to sell its 10.5% holding to the Company which they reneged and the Company filed a specific performance suit for acquiring the said stake has since been withdrawn. DSS has subsequently has filed a case in the Honorable Delhi High Court seeking to enforce the sale of its shares to the Company for Rs.620 million, which is pending with the Honorable Delhi High Court.

Subsequent to the period end, Bharti Mobinet Limited has issued right shares, resulting in beneficial interest of the Company being increased to 94.5% and that of DSS to 5.5%.

12. The Company has given interest free advance of Rs. 2,437.25 million to its wholly owned subsidiary S C Cellular Holdings Limited, Rs.5,646.46 million to Bharti Mobile Limited and Rs. 1,028.15 million to Bharti Mobinet Limited (formerly Skycell Communication Limited). In view of the Company's long-term view of its investment in Bharti Mobinet Limited and Bharti Mobile Limited, the amount due from S C Cellular Holdings Limited, Bharti Mobile Limited and Bharti Mobinet Limited is considered fully recoverable in the accounts.

13. Pursuant to the Amalgamation of the Company's erstwhile wholly owned subsidiaries Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited with the Company, as approved by the Honorable High Court of Delhi by its order dated October 29, 2001 and Honorable High Court of Madras by its order dated June 28, 2001 which becomes effective on December 24, 2001 on receipt of Certificate of Registration of Orders of Court from the Registrar of the Companies, NCT of Delhi and Haryana, all the properties, assets, liabilities and reserves of erstwhile Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited were transferred to and vested in the Company with effect from the appointed date i.e. April 1, 2001.

The Scheme of Amalgamation has been accounted for under the Purchase Method i.e. assets and liabilities of the erstwhile Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited have been recorded in the Company's books at their book value to the erstwhile companies ignoring the impact of cumulative losses aggregating to Rs. 263,617/- in the respective companies. The value of net assets acquired effective from April 1, 2001 and calculation of goodwill arising on amalgamation is set out below:

| | **Rupees** |
|---|---:|
| Shares in SC Cellular Holdings Limited | 75,122,390 |
| Current Assets | 12,693 |
| Less : Liabilities acquired | (45,398,700) |
| Net Asset acquired as on April 1, 2001 (A) | 29,736,383 |
| Purchase Consideration: | |
| Cost of Equity share in Jumbo, Jubilant and Viscount (B) | 180,036,220 |
| Goodwill arising on amalgamation (A-B) | 150,299,837 |

The share capital of the erstwhile Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited aggregating Rs.30,000,000/- has been adjusted against the cost of investment in share capital of the erstwhile Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited in the books of the Company aggregating Rs.180,036,220/- resulting in goodwill of Rs.150,299,837/- as above.

Subsequent to the above-mentioned amalgamation, the Company had transferred its entire shareholding in SC Cellular Holdings Limited to a wholly owned subsidiary at a profit of Rs. 150.30 million. Accordingly, the Company has written off the entire goodwill amount in the current period.

14. The Company holds an effective 74% Equity in Bharti Mobile Limited (Formerly JT Mobiles Ltd.). There is pending litigation in the High Courts of Delhi and Karnataka by Parasrampuria Credit and Investment Ltd. (PCIL) claiming 20% interest in the equity of Bharti Mobile Ltd. formerly held by United Telecom Ltd. (UTL). The Company is confident the PCIL will not be successful in its claim; further it holds and indemnity through pledge of shares in BTVL allotted to a shareholder of UTL for the above.

**15.. Significant transactions of Sale, Purchase, Income and Expenditure of the Company with Promoter & Promoter Group, as certified by the management.**

**(Rs.' 000)**

| Name | Particulars of Sale, Purchase, Income and Expenditure of BTVL | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|---|
| **Bharti BT Internet Limited** | Purchase of Internet services. | 376 | 407 | 15 | | | |
| | Purchase of Fixed Assets | | 1,046 | | | | |
| | Interest paid on ICD | | 627 | | | | |
| **Bharti BT Limited** | Purchase of V-Sat services. | | 13 | | | | |
| | Profit on sale of assets / Services | 2,933 | 250 | | | | |
| **Bharti Cellular Limited** | Purchase of cellular services. | 2,266 | 2,375 | 382 | 233 | 122 | |
| | Interest received on ICDs. | | | | 10,671 | 64,595 | 26,404 |
| | Guarantee Fee received | 15,201 | 4,393 | 8,793 | 8,779 | 123 | |
| | Interest paid | | | | 842 | | |
| | Liasoning and other service charges received | | 3,150 | | | | |
| | Management fee received | 12,540 | 2,001 | | | | |
| | Purchase of Fixed Assets. | | 915 | 52 | 135 | | |
| | Sale of Investments | 2,232,032 | | | | | |
| **Bharti Healthcare Limited** | Interest received on ICD. | | | | | | 502 |
| **Bharti Telecom Finance Limited** | Interest received on ICD. | | | | | | 17,358 |
| | Commission paid for placement of funds. | | | | | 906 | 16,404 |
| | Commission paid for acquisition of shares in Skycell Communications Limited | | 50,000 | | | | |
| **Bharti Telecom Limited** | Interest received. | | | | | | 3,489 |
| | Interest paid. | 4,181 | | 707 | 484 | 1,667 | |
| | Purchase of Assets. | | | 54,259 | | | |
| | Management fee and service charges paid | | 9,093 | 12,125 | 12,057 | 12,000 | 12,000 |
| | Sale of Preference Shares | | | | | | 70,000 |
| | Purchase of Equity shares in Bharti Telespatial Limited | | 13,700 | | | | |
| **Bharti Telenet Limited** | Equipment lease rent income. | 3,664 | 34,542 | 29,182 | 7,955 | 6,960 | 1,740 |
| | Sale of Bonds | | 498,360 | 52,016 | 66,680 | 53,521 | |
| | Liaison and Support service charges received | | 4,851 | | | | |
| | Management fee received | | 1,500 | | | | |
| | Purchase of Bonds | | | 57,575 | | | |
| | Interest received on advances | | 14,466 | | | | |
| | Sale of Investments | 750,066 | | | | | |
| **Bharti Telesoft Limited** | Purchase of software. | 835 | 2,838 | | | | |
| **Bharti Telesonic Limited** | Interest received on advances | | 25,193 | | | | |
| | Sale of Investment | 0.1 | | | | | |
| **S.C. Cellular Holdings Limited** | Sale of investment in Skycell Communications Limited | | 1,550,000 | | | | |
| **Bharti Broadband Networks Ltd.** | Purchase of Fixed Assets | 150 | | | | | |

(Rs.' 000)

| Name | Particulars of Sale, Purchase, Income and Expenditure of BTVL | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|---|
| **Bharti Mobile Limited** | Management fee received | 5,124 | | | | | |
| **Bharti Enterprises Private Limited** | Interest paid on ICD | | 528 | | | | |
| **Bharti Overseas Trading Company** | Sale of Fixed Assets | 272 | 155 | | | | |

**b) Particulars of Loans and Advances to Promoter & Promoter Group.**

(Rs.'000)

| Name | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| Bharti BT Internet Limited | 11,472 | - | 5,037 | - | - | - |
| Bharti BT Limited | 18,203 | 391 | | | | |
| Bharti Cellular Limited | 12,313,483 | 115,748 | 7,885 | 4,172 | 258,671 | 440,041 |
| Bharti Comtel Limited | - | - | 96,100 | - | - | - |
| Bharti Telecom Finance Limited | - | - | 50,000 | - | - | 257,222 |
| Bharti Telenet Limited | 1,798,217 | 534,661 | 898,764 | 399,726 | 982,578 | 273,633 |
| Bharti Telesonic Limited | 1,822,960 | 160,176 | - | - | - | - |
| S.C. Cellular Holdings Limited | 2,437,255 | 4,103,230 | 481,963 | - | - | - |
| Bharti Mobile Limited | 5,646,465 | 2,469,092 | 1,870,412 | - | - | - |
| Bharti Aquanet Limited | 63,000 | 7,912 | - | - | - | - |
| Jubilant Holdings Limited | - | 16,083 | 139,921 | - | - | - |
| Jumbo Holdings Limited | - | 14,634 | 134,360 | - | - | - |
| Viscount Holdings Limited | - | 14,634 | 134,360 | - | - | - |
| Bharti Mobitel Limited | 626,848 | - | | | | |
| Bharti Telespatial Limited | 1,243,605 | 533,770 | - | - | - | - |
| Bharti Broadband Networks Limited | 76,905 | 15,440 | - | - | - | - |
| Bharti Mobinet Limited | 1,028,146 | 654,084 | - | - | - | - |
| JD Projects Private Limited | - | 7,500 | - | - | - | - |

***Note 1:*** *Details of entities/ persons covered under Promoter & Promoter Group is as certified by the management.*

***Note 2:*** *The above list does not include expenses incurred by / on behalf of Bharti Tele-Ventures Limited on behalf of / by Promoter & Promoter Group companies.*

## ANNEXURE – V

**ACCOUNTING RATIOS OF BTVL**

| Key Ratios | Year / Period Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
| Earning per share (Rs.) | 0.06 | 0.04 | 0.12 | 0.11 | 1.35 | 1.33 |
| Net Asset Value per share (Rs.) | 24.23 | 157.03 | 83.53 | 42.16 | 42.05 | 40.70 |
| Return on Net Worth (%) | 0.26 | 0.02 | 0.15 | 0.27 | 3.20 | 3.26 |
| Equity Shares at the end of the year (in Nos.) | 1,668,030,067 | 106,235,060 | 65,625,022 | 50,000,000 | 50,000,000 | 50,000,000 |

Formula:

Earnings Per Share (Rs) = Net Profit after tax and before extraordinary items / Number of equity shares at each year end

Net Asset Value per share = Net worth excluding revaluation reserve / Number of equity shares at each year end

Return on Net Worth (%) = Net Profit before extraordinary items but after adjusted tax / Net worth excluding revaluation reserve

**Notes :**

1. Earning per share and Return on Net Worth for the period ended September 30, 2001 are for a period of six month and therefore, are not comparable with previous year figures.
2. The above ratios are computed after consideration of 49,999,000 bonus shares issued during the year ended March 31, 1997 and 1,516,390,970 bonus shares issued during the year period September 30, 2001.
3. Above ratios are computed on the basis of stand alone (Unconsolidated) restated financial of BTVL.

## ANNEXURE – VI

**CAPITALISATION STATEMENT OF BTVL**

(Rs. in '000)

| Particulars | Pre Issue As on September 30, 2001 |
|---|---|
| Short term Debt | 1,000,000 |
| Long term Debt | 537,751 |
| | **1,537,751** |
| Shareholders Funds | |
| Share Capital | 16,680,301 |
| Reserves after adjustments of Miscellaneous Expenditure, to the extent not written off | 23,733,580 |
| Total Shareholders' Funds | **40,413,881** |
| Long Term Debt/Equity | 0.01 |

## ANNEXURE – VII

**STATEMENT OF TAX SHELTERS OF BTVL**

(Rs. ' 000)

| Particulars | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 | March 31, 1996 |
|---|---|---|---|---|---|---|
| | Year / Period Ended | | | | | |
| **Profit/(Loss) before tax but after extraordinary Items, as per Books (A)** | **5,852** | **10,515** | **(16,817)** | **80,776** | **134,890** | **(40)** |
| **Tax on actual rate on profits** | **2,314** | **4,048** | **-** | **26,421** | **58,003** | **-** |
| **Adjustments :** | | | | | | |
| **Permanent Differences:(B)** | | | | | | |
| Donations | (2,389) | 150 | - | 10 | 153 | - |
| Expenditure disallowed in IT Act | 1,500 | 300 | - | - | - | - |
| Income u/s 2(24)(x) on late deposit of P.F. | 11 | - | - | - | - | - |
| Disallowance u/s 36 on late deposit of P.F. | 11 | - | - | - | - | - |
| Previous Year Expenses | - | 5 | 11 | 4 | - | - |
| Disallowance Under Rule 6D | 11 | - | - | - | 15 | - |
| Wealth tax | 72 | - | - | - | - | - |
| Indexed difference on Long term capital loss | (2,304) | - | - | - | - | - |
| Entertainment Expenses | - | - | - | - | 35 | - |
| Tax Free Interest on Bonds | (1,800) | (1,800) | (5,177) | (17,658) | (20,599) | - |
| **Total Permanent Differences (B)** | **(4,888)** | **(1,345)** | **(5,166)** | **(17,644)** | **(20,396)** | **-** |
| **Timing Differences (C):** | | | | | | |
| Difference between Tax Depreciation and Book Depreciation | 6,052 | (2,226) | (21,417) | (19,446) | (11,836) | - |
| Loss/(Profit) on sale of fixed assets | (374) | - | - | - | - | - |
| Previous Year Expenses (claimed in related year) | 216 | (216) | - | - | - | - |
| Misc. Expenditure Written off | - | - | 25,784 | 5,941 | 1,505 | - |
| ROC Fees | - | - | - | - | 1,500 | - |
| Software Expenses | - | - | (3,355) | (2,438) | (26,936) | - |
| Deduction u/s 35D | (150) | (150) | (150) | (150) | (150) | - |
| Disallowance u/s 43 B | - | - | (15) | 15 | - | - |
| Provision for Gratuity | 606 | - | - | - | - | - |
| Provision for Leave Encashment | - | - | 32 | 2 | - | - |
| **Total Timing Differences (C)** | **6,350** | **(2,592)** | **879** | **(16,076)** | **(35,917)** | **-** |
| **Net Adjustments (B+C)** | **1,462** | **(3,937)** | **(4,287)** | **(33,720)** | **(56,313)** | **-** |
| **Tax saving thereon** | **578** | **(1,515)** | **(1,500)** | **(11,802)** | **(24,214)** | **-** |
| **Profit/(Loss) as per Income Tax Returns (D) = (A+B+C)** | **7,314** | **6,578** | **(21,104)** | **47,056** | **78,577** | **-** |
| Brought forward Losses adjusted (E) | - | (6,578) | - | - | (40) | - |
| **Taxable Loss/Income (D+E)** | **7,314** | **-** | **(21,104)** | **47,056** | **78,537** | **-** |
| **Taxable Income as per MAT** | | **2,614** | **-** | **-** | **-** | **-** |
| **Tax as per Income Tax as returned** | **2,894** | **1,007** | **-** | **14,619** | **33,771** | **-** |
| Interest u/s 234 | - | - | - | - | 50 | - |
| Brought forward Tax adjusted u/s 115 JAA | (1,007) | - | - | - | - | - |
| **Total Tax as per Income Tax as returned** | **1,887** | **1,007** | **-** | **14,619** | **33,821** | **-** |
| Carried forward loss | (14,526) | (14,526) | (21,104) | - | - | (40) |
| Carried forward tax u/s 115 JAA as returned | - | 1,007 | - | - | - | - |

## ANNEXURE – VIII

**DETAILS OF OTHER INCOME**

The details of other Income of BTVL, where it exceed 20% of the net profit before tax of respective years, is as follows:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | Nature of Income |
|---|---|---|---|---|---|---|
| Guarantee Fee | | 4,393 | 8,793 | 8,780 | 123 | Recurring |
| Forex gain | 6,634 | 4,487 | 389 | - | - | Recurring |
| Management Fee | 17,664 | 3,501 | - | - | - | Recurring |
| Liaison Charges | - | 7,251 | - | - | - | Recurring |
| Support Services Charges | - | 750 | - | - | - | Recurring |
| Profit on Sale of Fixed Assets | - | 374 | - | - | - | Recurring |
| Miscellaneous Receipts | 1,243 | 319 | 19 | 199 | - | Recurring |
| **Total** | **25,541** | **21,075** | **9,201** | **8,979** | **123** | |

## ANNEXURE – IX

**CASH FLOW, AS PER RESTATED FINANCIAL STATEMENTS OF BTVL**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| **Cash Flows from operating activities** | | | | | | |
| Net Profit before Tax and extraordinary items | 104,362 | 5,852 | 10,515 | 5,612 | 84,342 | 109,522 |
| *Adjustments for :-* | | | | | | |
| Depreciation | 165,093 | 34,534 | 24,323 | 9,068 | 6,297 | 1,632 |
| Miscellaneous expenditure Amortisation | 10,290 | 4,212 | 4,506 | 3,356 | 2,437 | 26,936 |
| Miscellaneous expenditure (Payments) | (10,290) | (4,212) | (4,506) | (3,356) | (2,437) | (26,936) |
| Loss / (Profit) on Sale of Fixed Assets | (29) | (374) | - | - | - | - |
| Profit on sale of investment in Associate Company | (150,300) | (252,045) | - | - | - | - |
| ESOP Expenses written off | 12,558 | - | - | - | - | - |
| Sale proceeds / Purchase consideration of investments held for trading purposes (Net) | 1,181,498 | 150,688 | (1,538,491) | (8,889) | 223,830 | (340,775) |
| **Operating profit before Working Capital changes** | **1,313,182** | **(61,345)** | **(1,503,653)** | **5,791** | **314,469** | **(229,621)** |
| (Increase) / Decrease in Loans and advances other than advances to subsidiaries (Net) | 484,235 | 2,155,449 | (2,918,438) | (5,969) | 400,786 | (310,127) |
| Increase / (Decrease) in Current Liabilities (Net) | (113,387) | 373,142 | (94,250) | 18,229 | 18,362 | 102,742 |
| Advances given to BTVL Trust for purchase of shares under ESOP scheme | (147,400) | - | - | - | - | - |
| **Cash Generated from operations** | **1,536,630** | **2,467,246** | **(4,516,341)** | **18,051** | **733,617** | **(437,006)** |
| Income Taxes paid | (8,073) | (42,381) | (9,144) | (4,233) | (15,177) | (41,217) |
| **Net Cash from operations** | **1,528,557** | **2,424,865** | **(4,525,485)** | **13,818** | **718,440** | **(478,223)** |
| **Cash from Investment Activities :-** | | | | | | |
| Investments in Subsidiaries (Net) | (7,589,139) | (4,845,891) | (29,700) | (935,850) | (69,150) | (270,000) |
| Purchase Consideration of Investment in Associate Company | (84,290) | (1,297,955) | - | - | - | - |
| Sale Consideration of Investment in Associate Company | 234,590 | 1,550,000 | - | - | - | - |
| Advances to Subsidiaries (Net) | (19,100,788) | (6,820,070) | (765,975) | 841,523 | (527,575) | (713,675) |
| Purchase of Fixed assets | (232,695) | (77,055) | (56,083) | (14,946) | (37,536) | (107,846) |
| Proceeds from sale of Fixed Assets | 653 | 1,110 | - | - | - | - |
| **Net Cash from Investing activities** | **(26,771,669)** | **(11,489,860)** | **(851,758)** | **(109,273)** | **(634,261)** | **(1,091,521)** |

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| **Cash flow from Financing Activities:-** | | | | | | |
| Proceeds from issuance of Share Capital | 23,751,123 | 11,196,826 | 3,365,654 | - | - | - |
| Proceeds from long term borrowings | - | - | 2,000,000 | - | - | - |
| Repayment of long term borrowings | 1,537,751 | (2,000,000) | - | - | - | (172,271) |
| **Net Cash From Financing activities** | **25,288,874** | **9,196,826** | **5,365,654** | **-** | **-** | **(172,271)** |
| **Cash & Bank balances (Opening)** | **132,956** | **1,126** | **12,715** | **108,170** | **23,991** | **1,766,006** |
| **Cash & Bank balances (Closing)** | **178,718** | **132,956** | **1,126** | **12,715** | **108,170** | **23,991** |

**Notes:**

1. The Net Profit before Tax and extraordinary items have been arrived at after charging the interest expensed of Rs. 14,305, Rs.259,833, Rs.52,566, Rs.1,325 and Rs.1,667 in the period ended September 30, 2001, financial year ended March 31, 2001, March 31, 2000, March 31, 1999 and March 31, 1998 respectively.
2. The Net Profit before Tax and extraordinary items have been arrived at considering the interest income of Rs. 132,916, Rs. 239,905, Rs. 85,786, Rs.32,984, Rs. 96,506 and Rs.187,627 in the period ended September 30, 2001, financial year ended March 31, 2001, March 31, 2000, March 31, 1999, March 31, 1998 and March 31, 1997 respectively.
3. During the period ended September 30, 2001 three erstwhile subsidiaries of the Company namely Jumbo Holdings Limited ("Jumbo"), Jubilant Holdings Limited ("Jubilant") and Viscount Holdings Limited ("Viscount") amalgamated into the Company. Company's cost of Investments in Jumbo, Jubilant and Viscount agreegating to Rs. 180.04 million and advances to Jumbo, Jubilant and Viscount agreegating to Rs. 45.40 million are shown as outflow in this statement and the resultant acquisition of assets and goodwill are shown as inflow in this Cash Flow Statement.

## ANNEXURE – X

**LIST OF SUBSIDIARIES OF THE COMPANY AS ON MARCH 31, 2001**

| S. No. | Name of the Subsidiary | Year end | Name of the Auditors |
|---|---|---|---|
| 1. | Bharti Cellular Limited | March 31, 1997 | Price Waterhouse |
| | | March 31, 1998 | Price Waterhouse |
| | | March 31, 1999 | Price Waterhouse |
| | | March 31, 2000 | Price Waterhouse |
| | | March 31, 2001 | Price Waterhouse |
| | | September 30, 2001 | Price Waterhouse |
| 2. | Bharti Telenet Limited | March 31, 1997 | Price Waterhouse & Co. |
| | | March 31, 1998 | Price Waterhouse & Co. |
| | | March 31, 1999 | Price Waterhouse & Co. |
| | | March 31, 2000 | Price Waterhouse & Co. |
| | | March 31, 2001 | Price Waterhouse & Co. |
| | | September 30, 2001 | Price Waterhouse & Co. |
| 3. | Bharti Mobile Limited | March 31, 1997 | Price Waterhouse & Co. |
| | | March 31, 1998 | Price Waterhouse & Co. |
| | | March 31, 1999 | Price Waterhouse & Co. |
| | | March 31, 2000 | Price Waterhouse & Co. |
| | | March 31, 2001 | Price Waterhouse & Co. |
| | | September 30, 2001 | Price Waterhouse & Co. |
| 4. | Bharti BT Internet Limited | March 31, 1999 | Price Waterhouse & Co. |
| | | March 31, 2000 | Price Waterhouse & Co. |
| | | March 31, 2001 | Price Waterhouse & Co. |
| | | September 30, 2001 | Price Waterhouse & Co. |

| S. No. | Name of the Subsidiary | Year end | Name of the Auditors |
| --- | --- | --- | --- |
| 5. | Bharti Broadband Networks Limited | March 31, 2001 | Price Waterhouse |
| | | September 30, 2001 | Price Waterhouse |
| 6. | Bharti Aquanet Limited | March 31, 2001 | Price Waterhouse |
| | | September 30, 2001 | Price Waterhouse |
| 7. | Bharti Telesonic Limited | March 31, 2001 | Price Waterhouse |
| | | September 30, 2001 | Price Waterhouse |
| 8. | SC Cellular Holdings Limited | March 31, 1997 | Sridhar & Santhanam |
| | | March 31, 1998 | Sridhar & Santhanam |
| | | March 31, 1999 | Sridhar & Santhanam |
| | | March 31, 2000 | Sridhar & Santhanam |
| | | March 31, 2001 | JC Bhalla & Co. |
| | | September 30, 2001 | JC Bhalla & Co. |
| 9. | Welldone Impex India Limited | March 31, 1997 | JC Bhalla & Co. |
| | | March 31, 1998 | JC Bhalla & Co. |
| | | March 31, 1999 | JC Bhalla & Co. |
| | | March 31, 2000 | JC Bhalla & Co. |
| | | March 31, 2001 | JC Bhalla & Co. |
| | | September 30, 2001 | JC Bhalla & Co. |
| 10. | Bharti Comtel Limited | March 31, 1999 | JC Bhalla & Co. |
| | | March 31, 2000 | JC Bhalla & Co. |
| | | March 31, 2001 | JC Bhalla & Co. |
| | | September 30, 2001 | JC Bhalla & Co. |
| 11. | Bharti Telespatial Limited | March 31, 1999 | JC Bhalla & Co. |
| | | March 31, 2000 | JC Bhalla & Co. |
| | | March 31, 2001 | JC Bhalla & Co. |
| | | September 30, 2001 | JC Bhalla & Co. |
| 12. | Bharti BT Limited | March 31, 1997 | AF Ferguson & Co. |
| | | March 31, 1998 | AF Ferguson & Co. |
| | | March 31, 1999 | AF Ferguson & Co. |
| | | March 31, 2000 | AF Ferguson & Co. |
| | | March 31, 2001 | AF Ferguson & Co. |
| | | September 30, 2001 | AF Ferguson & Co. |
| 13. | Bharti Mobinet Limited | March 31, 2001 | Price Waterhouse |
| | | September 30, 2001 | Price Waterhouse |
| 14. | Bharti Mobitel Limited | March 31, 2001 | S.R. Batliboi & Co. |
| | | September 30, 2001 | S.R. Batliboi & Co. |
| 15. | JD Projects Limited | March 31, 2001 | JC Bhalla & Co. |
| | | September 30, 2001 | JC Bhalla & Co. |

# APPENDICES

## APPENDIX : A

**BHARTI CELLULAR LIMITED ("BCL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BCL for the five financial years ended March 31, 2001 and for the period April 1, 2001 to September 30,2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | Sept. 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| **INCOME** | | | | | | |
| Gross Billing Revenue | 2,956,767 | 4,479,522 | 3,370,437 | 2,085,534 | 1,764,480 | 863,342 |
| Less: MTNL Access Charges | 599,217 | 857,520 | 568,682 | 393,984 | 273,587 | 147,509 |
| **Net Billing Revenue** | **2,357,550** | **3,622,002** | **2,801,755** | **1,691,550** | **1,490,893** | **715,833** |
| Sale of Goods (Traded) | 13,428 | 20,355 | 57,679 | 161,409 | 435,333 | 378,553 |
| **Total** | **2,370,978** | **3,642,357** | **2,859,434** | **1,852,959** | **1,926,226** | **1,094,386** |
| Other Income | 116,402 | 214,916 | 114,348 | 39,078 | 6,179 | 4,707 |
| **Total Income** | **2,487,380** | **3,857,273** | **2,973,782** | **1,892,037** | **1,932,405** | **1,099,093** |
| **EXPENDITURE** | | | | | | |
| Network Operating Expenses | 360,512 | 269,830 | 265,358 | 227,235 | 123,687 | 98,437 |
| Cost of Sales of Goods (Traded) | 2,758 | 3,979 | 43,722 | 143,319 | 442,778 | 388,292 |
| Employee Cost | 162,558 | 261,203 | 164,059 | 98,573 | 68,713 | 34,299 |
| Sales & Marketing Expenses | 303,183 | 592,375 | 309,550 | 151,460 | 337,012 | 230,668 |
| Administrative & Other Expenditure | 201,157 | 382,492 | 293,301 | 294,131 | 345,479 | 188,047 |
| **Total Expenditure** | **1,030,168** | **1,509,879** | **1,075,990** | **914,718** | **1,317,669** | **939,743** |
| **Profit/(Loss)(EBITDA)** | **1,457,212** | **2,347,394** | **1,897,792** | **977,319** | **614,736** | **159,350** |
| Finance Expenses | 155,907 | 322,256 | 336,247 | 328,379 | 296,759 | 184,779 |
| License Fee- Revenue share | 328,779 | 543,300 | 295,620 | - | - | - |
| Entry Fee and other amortisation | 24,645 | 49,290 | 77,298 | 324,163 | 84,670 | 37,832 |
| **Profit/(Loss) before Depreciation** | **947,881** | **1,432,548** | **1,188,627** | **324,777** | **233,307** | **(63,261)** |
| Depreciation | 285,083 | 502,139 | 699,135 | 274,583 | 215,984 | 138,669 |
| **Net Profit/(Loss) before tax** | **662,798** | **930,409** | **489,492** | **50,194** | **17,323** | **(201,930)** |
| Provision for Tax | 50,704 | 80,465 | 26,140 | - | - | - |
| Deferred Tax | 43,506 | | | | | |
| **Net Profit/(Loss) for the year** | **568,588** | **849,944** | **463,352** | **50,194** | **17,323** | **(201,930)** |
| Prior Year adjustments | - | - | (16,226) | - | 1,200 | 9,250 |
| Net Profit/(Loss) as per audited statement of account (A) | 568,588 | 849,944 | 447,126 | 50,194 | 18,523 | (192,680) |
| **Adjustments on account of :** | | | | | | |
| Deferred Tax | - | 102,657 | (118,293) | (226,378) | (35,757) | 74,965 |
| Impact of material adjustments and prior period items. (Refer Note IV (1)) | 157,236 | 137,388 | (270,989) | 15,205 | (42,710) | (5,964) |
| Impact of changes in accounting policies. (Refer Note IV (1)) | - | - | (147,069) | 274,896 | (7,058) | (26,798) |
| **Total (B)** | **157,236** | **240,045** | **(536,351)** | **63,723** | **(85,525)** | **42,203** |
| **Adjusted Profit / (Loss) (A) + (B)** | **725,824** | **1,089,989** | **(89,225)** | **113,917** | **(67,002)** | **(150,477)** |
| Carry Forward Profit/(Loss) from Previous Year | 725,227 | (364,762) | (275,537) | (389,454) | (322,452) | (171,975) |
| **Profit/(Loss) transferred to Balance Sheet** | **1,451,051** | **725,227** | **(364,762)** | **(275,537)** | **(389,454)** | **(322,452)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

bharti

**BHARTI CELLULAR LIMITED**

## II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED

Assets and Liabilities of BCL as at the end of each financial year and at the end of six months period ended September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | Sept. 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | | |
| **Fixed Assets** | | | | | | |
| Gross Block | 4,776,137 | 4,244,676 | 3,449,177 | 3,024,770 | 2,658,498 | 1,777,635 |
| Less : Depreciation | 1,880,053 | 1,610,150 | 1,348,871 | 671,610 | 407,996 | 192,293 |
| Net Block | 2,896,084 | 2,634,526 | 2,100,306 | 2,353,160 | 2,250,502 | 1,585,342 |
| Capital Work in Progress (including capital advances) | 366,040 | 99,651 | 232,757 | 148,773 | 138,154 | 430,551 |
| **Total** | **3,262,124** | **2,734,177** | **2,333,063** | **2,501,933** | **2,388,656** | **2,015,893** |
| **Pre-operative Expenses** | **6,910,960** | | | | | |
| **Investments** | | | | | | |
| Short Term Non-trade | 383,597 | 1,505,885 | 699,810 | 411,237 | - | - |
| Long Term trade unquoted— in Subsidiaries | 6,950,436 | 33,496 | 33,496 | 33,496 | 33,496 | - |
| **Total** | **7,334,033** | **1,539,381** | **733,306** | **444,733** | **33,496** | **-** |
| **Entry Fees (Unamortised)** | 686,118 | 710,763 | 760,052 | 809,242 | 858,283 | 907,324 |
| **Current Assets, Loans and Advances** | | | | | | |
| Inventories | 1,818 | 4,289 | 4,050 | 19,969 | 25,074 | 15,513 |
| Sundry Debtors | 377,909 | 296,810 | 201,876 | 317,298 | 308,691 | 127,854 |
| Cash and Bank Balances | 119,594 | 37,341 | 23,188 | 270,956 | 42,261 | 84,388 |
| Loans and Advances | 821,949 | 613,007 | 460,669 | 244,655 | 167,451 | 246,677 |
| Advance tax/TDS Recoverable | - | - | - | 3,673 | 1,525 | 288 |
| **Total (A)** | **1,321,270** | **951,447** | **689,783** | **856,551** | **545,002** | **474,720** |
| **Current Liabilities and Provisions** | | | | | | |
| Current Liabilities | 2,505,047 | 1,450,012 | 1,063,876 | 515,301 | 475,491 | 511,674 |
| **Provisions** | | | | | | |
| Provision for Staff Benefit | 6,170 | 4,657 | 3,894 | 1,907 | 2,105 | 746 |
| Other Provisions | 13,246 | 3,724 | 13,227 | 20,308 | 15,454 | 10,684 |
| **Total (B)** | **2,524,463** | **1,458,393** | **1,080,997** | **537,516** | **493,050** | **523,104** |
| **Net Current Assets (A-B)** | (1,203,193) | (506,946) | (391,214) | 319,035 | 51,952 | (48,384) |
| Deferred Tax Asset/(Liability) | (136,345) | (92,839) | (195,496) | (77,203) | 149,175 | 184,932 |
| Miscellaneous Expenditure (To the extent not written off or adjusted) | 60,341 | - | - | - | 225 | 675 |
| **Profit and Loss Account** | - | - | 364,762 | 275,537 | 389,454 | 322,452 |
| **TOTAL** | **16,914,038** | **4,384,536** | **3,604,473** | **4,273,277** | **3,871,241** | **3,382,892** |
| **SOURCES OF FUNDS** | | | | | | |
| **Loan Funds** | | | | | | |
| Secured Loans | 2,010,667 | 1,927,333 | 2,099,121 | 2,122,349 | 1,469,062 | 796,373 |
| Unsecured Loans | 11,656,568 | - | - | - | 238,699 | 459,465 |
| **Total** | **13,667,235** | **1,927,333** | **2,099,121** | **2,122,349** | **1,707,761** | **1,255,838** |
| **Security Deposit** | 745,752 | 681,976 | 455,352 | 351,938 | 251,990 | 163,864 |
| **License Fee Payable** | | - | - | 748,990 | 861,490 | 931,490 |
| **Share Capital & Reserves** | | | | | | |
| Share Capital | 1,050,000 | 1,050,000 | 1,050,000 | 1,050,000 | 1,050,000 | 762,700 |
| Reserves & Surplus | 1,451,051 | 725,227 | | | - | - |
| **Total** | **2,501,051** | **1,775,227** | **1,050,000** | **1,050,000** | **1,050,000** | **762,700** |
| **Advance against Equity** | - | - | - | - | - | 269,000 |
| **Total** | **2,501,051** | **1,775,227** | **1,050,000** | **1,050,000** | **1,050,000** | **1,031,700** |
| **TOTAL** | **16,914,038** | **4,384,536** | **3,604,473** | **4,273,277** | **3,871,241** | **3,382,892** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI CELLULAR LIMITED**

**III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**1. FIXED ASSETS :**

Fixed Assets are stated at cost of acquisition and subsequent improvements thereto, including taxes, duties, freight and other incidental expenses related to acquisition and installation.

Capital work in progress is stated at cost.

**2. DEPRECIATION:**

Depreciation is provided on straight-line method to write off the cost of the fixed assets over their estimated useful lives. The estimated useful life has been taken as follows:

| | Years |
|---|---|
| Plant & Machinery | 10 |
| Optical Fibre Cable | 15 |
| Building | 20 |
| Office Equipment | 5 |
| Mobile Phone | 3 |
| Computer | 3 |
| Vehicles | 5 |
| Furniture & Fixtures | 5 |
| Leasehold Land | Period of lease |
| Lease hold Improvements | Period of lease |

Impaired assets/ assets held for disposals are written down to their salvage value.

**3. REVENUE RECOGNITION AND RECEIVABLES:**

Billing and revenue on account of sale of goods is recognised on completion of provision of services and despatch of goods respectively. Billing Revenue includes income on roaming commission and MTNL access charges, and is net of discounts and waivers.

Provision for doubtful debts is made for dues outstanding for more than 90 days in case of active subscribers and dues from customers who have been deactivated, other than those covered by security deposits or in specific cases where management is of the view that the amounts are recoverable.

**4. INVENTORIES:**

Inventories are valued at the lower of cost on a first in first out basis or net realisable value .

**5. INVESTMENT:**

Long term Investments are valued at cost. Provision is made for diminution in value to recognise a decline, if any, other than of temporary nature. Current Investments are valued at lower of cost and fair market value.

**6. LICENSE FEES:**

The fixed component of license fee payable by the Company, upon migration to the National Telecom Policy (NTP 1999), ie Entry Fee, has been capitalised as an asset. The Entry fee so capitalised is being amortised equally over the period of the license.

With effect from August 1, 1999 the variable license fee computed at prescribed rates of revenue share is being charged to the Profit and Loss Account in the year in which the related revenue arises. Revenue for this purpose comprises adjusted gross revenue (AGR) as per the license agreement of the license area, to which the related license agreement pertains.

**7. TRANSLATION OF ITEMS IN FOREIGN CURRENCY:**

Transactions in Foreign Currency are recorded at the exchange rate prevailing at the date of the transaction. Monetary items are restated at year-end foreign exchange rates. Resultant exchange differences arising on payment or conversion of liabilities are recognised as Income or Expense in the year in which they arise except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed asset.

**8. RETIREMENT BENEFITS:**

The Company has provided for the liability on account of unavailed earned leave and gratuity, payable to its employees, as per actuarial valuation.

**9. LEASES:**

Lease rentals in respect of assets taken on ‘Operating Lease’ are charged to the Profit and Loss Account on an accrual basis.

**10. EMPLOYEE STOCK OPTION SCHEME:**

The aggregate amount of liability on account of Employee Stock Option Plan as ascertained at year end is being carried forward as Deferred Employee Compensation Benefit under Miscellaneous Expenditure to be written off on a straight line basis over the related vesting period of individual options.

**11. TAXATION:**

Tax expense for the period, comprising current tax and deferred tax is included in determining the net profit/(loss) for the period.

However, in the year of transition, the accumulated deferred tax liability at the beginning of the year has been recognised with a corresponding charge to the Reserves in accordance with Accounting Standard 22 issued by the Institute of Chartered Accountants of India.

Deferred tax assets are recognised for all deductible timing differences and carried forward to the extent it is probable that future taxable profit will be available against which such deferred tax assets can be realised.

The Company provides for deferred tax charge using the liability method, based on the tax effect of timing differences resulting from the recognition of expense/income in the financial statements viz its income-tax treatment.

**BHARTI CELLULAR LIMITED**

**IV NOTES TO ACCOUNTS**

**1 Adjustments/ Regroupings**

**Impact of Change in Accounting Policies / Prior period Items**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|---|
| **Profit / (Loss) as per audited Statements of accounts** | **A** | **568,588** | **849,944** | **447,126** | **50,194** | **18,523** | **(192,680)** |
| **Adjustment on account of :** | | | | | | | |
| ***Changes in Accounting Policy :*** | | | | | | | |
| Miscellaneous Expenditure | | | - | - | 54,890 | (3,001) | 17,981 |
| License Fee | | | - | (147,069) | 220,006 | (4,057) | (44,779) |
| **Total** | **B** | | **-** | **(147,069)** | **274,896** | **(7,058)** | **(26,798)** |
| ***Material adjustments and prior period items:*** | | | | | | | |
| Prior Period Items | | | - | 6,816 | 5,897 | (16,145) | (7,382) |
| License Fee and WPC | | 176,239 | (98,395) | (77,844) | | | |
| Deferred Tax | | | 102,657 | (118,293) | (226,378) | (35757) | 74,965 |
| Other Adjustments | | (19,003) | 235,783 | (199,961) | 9,308 | (26,565) | 1,418 |
| **Total** | **C** | **157,236** | **240,045** | **(389,282)** | **(211,173)** | **(78,467)** | **69,001** |
| **Adjusted Profit/ (Loss)** | **(A+B+C)** | **725,824** | **1,089,989** | **(89,225)** | **113,917** | **(67,002)** | **(150,477)** |

**Notes:**

a) **Miscellaneous Expenditure** - Upto year ended March 31, 1998 BCL followed the policy of amortising certain Deferred Revenue Expenditure over the period of 3 years. In 1999 BCL changed its policy to amortising all such miscellaneous expenditure in the year the expenditure is incurred. Accordingly each year's related expenditure has been charged off in respective year for the restatement.

b) **License Fee** - Upto year ended March 31, 1999 BCL had to pay license fee to the Department of Telecommunications (DoT) over the license period, which for the first three years was a fixed amount and thereafter was linked to the number of subscribers on the network subject to a minimum amount each year. The total license fee committed to DoT as minimum amount was capitalised as an asset and was amortised on the assumption of progressive growth of related sales revenue in each succeeding year with a view to follow the ' Matching Revenue ' concept and the amount over and above the minimum payable amount, if any, from the fourth license year was treated as revenue expenditure in the related year. In the year 1998-99 BCL, additionally, on a conservative basis, charged off the unamortised portion of the fixed license fee for the first three years.

During the year 1999-2000 the Government of India (GoI) introduced the New Telecom Policy (NTP), 1999 which divided the license fee into two parts i.e. Entry fee and variable license fee based on revenue share provisionally fixed at 15% of Annual Gross Revenue, the entry fee being the total license fee dues payable upto July 31, 1999. Further, the license period was extended from ten years to twenty years. In the year 1999-2000 the entry fee was treated as deferred revenue expenditure to be amortised equally over 20 years i.e. life of the license commencing from the effective date of the license.

During the year 2000-01 the regulatory authorities recommended a revision of license fees for cellular services to 12% of adjusted gross revenue and WPC fees at additional 2%/3% of adjusted gross revenues. However in absence of final regulatory decisions and intimation in this matter BCL on a conservative basis continued to provide the WPC fees based on earlier DOT notifications and demand notes in this regard, and the license fees at 15% of adjusted gross revenues as in the earlier year.

During the six month period ended September 30, 2001, DoT issued amendments to the existing license agreements for Cellular Mobile Telecom Services (CMTS), which has been accepted by the Company, resulting in the following changes:

i. Annual license fee @15% of Adjusted Gross Revenue (AGR) is payable with effect from August 1, 1999 to January 25, 2001and @ 12% of AGR thereafter.

ii. WPC spectrum charges are payable for use of cellular spectrum upto 4.4 Mhz / 6.2 Mhz at the rate of 2%/ 3% respectively of AGR with effect from August 1, 1999, WPC microwave royalty being continued to charged as per the rules laid down by the DoT WPC wing as earlier.

iii. The CMTS operator is permitted to provide fixed phones based on existing GSM cellular network infrastructure in the licensed area.

Guidelines have been issued for issuance of license for basic services to provide the use of hand held set with wireless access system in the local area (WLL).

While the aforesaid amendments are subject to the ongoing litigation relating to the 1999 migration package and the WLL matter, in the Delhi High Court and TDSAT respectively, as the Company has unconditionally accepted and signed the revised license agreement, the revenue share license fee and WPC charges have been accounted for in line with the changes as above.

Accordingly, the accounts have been restated to reflect amortisation of the entry fee over the license period of 20 years and charge to the Profit & Loss Account of the revenue share of the respective years.

c) **Prior Period Items** - Prior Period adjustments as disclosed in the Profit and Loss Account/ Balance Sheet have been adjusted in the respective years for restatement.

**d) Other Adjustments** - Other Adjustments consists of income or expense arising in a year pertaining to prior years though not classifiable as prior period expenditure, as the event resulting in the expenditure occurred only during the year in which accounted for.

**e) Deferred Tax** - The Company has accounted for Deferred Tax Liability/Asset for current and earlier years in order to comply with the mandatory provisions of Accounting Standard-22 ' Taxes on Income' issued by the Institute of Chartered Accountants of India.

**2. Non-Adjustments/ Regroupings**

**a) Impact of changes in Accounting Estimates**

Upto year 1998-99, Depreciation was provided on a straight line basis at the rates and in the manner prescribed in Schedule XIV of the Indian Companies Act, 1956. In 1999-2000, BCL revised the useful life estimates of the fixed assets and provided depreciation on a straight line basis as per the revised estimates of useful life specified in Statement Accounting policies (Note – III), above, resulting in additional charge on account of depreciation of Rs. 370.59 million, with a consequential impact on the profit for the year ended March 31, 2000 and the net assets of BCL in accordance with Accounting Standard – 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and Accounting Standard – 6 "Depreciation Accounting" issued by the Institute of Chartered Accountants of India.

**b) Qualification in the Auditors' Report regarding remuneration to director in excess of limit specified by the Companies Act, 1956.**

BCL had paid Rs. 1,870,636 and Rs. 2,193,256 in the year 1997-98 and 1998-99 respectively to Directors, which was in excess of remuneration payable under Section 198 of the Companies Act, 1956. The excess payment is pending Central Government approval and the same has not been adjusted in these financial statements.

**c) Qualification in Auditors' Report relating to non-adjustment of ESOP expenditure for the year due to variation in the IPO issue price of shares as compared to the price at which shares have been allotted to the ESOP trust.**

The employees of the Company have been granted options vide an employee stock option plan (ESOP) for the employees of Bharti Tele-Ventures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited has allotted equity shares of Bharti Televentures Limited to the Employees Welfare Trust on August 31, 2001 at a pre-determined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the Initial Public Offering (IPO) price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the company, the amount of which is not presently ascertainable.

**3. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

**(Rs.'000)**

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| (a) Contingent Liabilities on account of | | | | | | |
| - Guarantees Issued by Banks | 6,156,720 | 289,480 | 181,160 | 101,520 | 155,000 | 145,000 |
| - Corporate Guarantees | 60,000 | | | | | |
| - Wireless and Planning co-ordination fee | | - | - | 13,110 | 120,800 | 31,890 |
| - License Fee | | - | - | 168,330 | - | - |
| - Liquidated damages as demanded by DoT | | - | 5,000 | 5,000 | 5,000 | 5,000 |
| - Other claims against the Company not acknowledged as debts. | 76,363 | 76,060 | 20,050 | 14,020 | 35,070 | 330 |
| (b) Capital Commitments | | | | | | |
| Estimated amount of contracts, remaining to be executed on capital accounts (net of advances) | 714,030 | 523,750 | 235,830 | 81,580 | 195,340 | 520,000 |

4. The Company has filed a scheme of amalgamation with the Honorable High Court of Delhi under Sec. 391 to 394 of the Companies Act, 1956 for merger of its Subsidiary Welldone Impex India (Pvt.) Limited, (the transferor Company) and Bharti Cellular Limited (transferee Company). Under the scheme, with effect from the appointed date (i.e. April 1, 2001) the transferor Company will dissolve without winding up and merge with the transferee Company. The name of the transferee Company will be Bharti Cellular Limited

   Under the provisions of the scheme, with effect from the appointed date and upto the date the scheme comes into effect, the transferor Company shall be deemed to have been carrying on all operations and activities on behalf of the transferee Company and stand possessed of the properties so to be transferred in trust for the transferee Company. Also, all profits accruing to transferor Company (including taxes) or losses incurred shall be treated as profits or losses of the transferee Company.

5. During the year the company has been allotted eight new mobile licenses in the states of Mumbai, Maharashtra, Tamil Nadu, Kerala, Madhya Pradesh, UP (West), Haryana & Gujarat. An amount of Rs 6906.70 million has been paid by the Company to the DOT towards the acquisition of the said licenses. All the expenses incurred for the new circles have been considered as pre-operative expenditure and will be allocated to Fixed Assets/Deffered Revenue Expenditure respectively in the related year of commencement of commercial operations.

6. a). The employees of the company have been granted options vide an employee stock option plan (ESOP) for the employees of Bharti Televentures Limited and its subsidiaries on April1, 2001. Bharti Televentures Limited has allotted equity shares of Bharti Tele-Ventures Limited to the Employees Welfare Trust on August 31, 2001 at a pre-determined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and theissue price to the trust will be retained/borne by the respective operating companies/subsidiaries, the amount of which is not presently ascertainable.

   b) The Company has advanced an amount of Rs. 186.20 million to the Bharti Tele-Ventures Employees Welfare Trust towards total cost of equity shares to be allotted to its employees at the price at which the shares have been issued to the trust.

   The expenditure on ESOP plan as presently ascertained has been recognised as an expense in these accounts as explained in Clause 10 on Note III above; the adjustment required therein due to the variation in the IPO issue price as compared to the predetermined price as explained in para (a) above, which is presently nor asscertainable will be made in the accounts for the subsequent year.

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## APPENDIX : B

**BHARTI TELENET LIMITED ("BTNL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BTNL for the five financial years ended March 31, 2001 and for the period April 1, 2001 to September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|---|
| **INCOME** | | | | | | | |
| Billing Revenue | | 639,349 | 927,025 | 418,376 | 88,110 | 7,965 | 430 |
| Sale of goods | | - | 1,358 | 2,330 | 847 | 148 | 18 |
| Profit on sale / redemption of short term investments/Fixed Assets | | 2,866 | 2,975 | 42,813 | 8,302 | - | - |
| Internet Service Revenue | | 133 | 4,407 | 6,172 | - | - | - |
| Provision no longer required written back | | 70 | 3,300 | - | - | - | - |
| Other Income | | 899 | 3,412 | 1,698 | 173 | 227 | 634 |
| **Total Income** | | **643,317** | **942,477** | **471,389** | **97,432** | **8,340** | **1,082** |
| **EXPENDITURE** | | | | | | | |
| Network Operating | | 104,997 | 172,665 | 102,476 | 37,353 | 5,983 | 1,449 |
| Cost of Sales of Goods | | - | 743 | 1,662 | 760 | 42 | 19 |
| Personnel | | 117,108 | 185,562 | 138,815 | 63,335 | 7,013 | 1,046 |
| Sales & Marketing | | 98,066 | 159,012 | 113,981 | 30,138 | 3,409 | 1,578 |
| Administrative and others | | 45,592 | 124,675 | 116,237 | 139,488 | 10,330 | 2,232 |
| **Total Expenditure** | | **365,763** | **642,657** | **473,171** | **271,074** | **26,777** | **6,324** |
| **Profit/(Loss) (EBITDA)** | | **277,554** | **299,820** | **(1,782)** | **(173,642)** | **(18,437)** | **(5,242)** |
| Net Financial Expenses / (Income) | | 191,628 | 436,845 | 259,917 | (69,797) | 7,395 | 1,942 |
| License Fee Revenue Share | | 64,763 | 81,947 | 51,072 | - | - | - |
| **Profit/(Loss) before Depreciation** | | **21,163** | **(218,972)** | **(312,771)** | **(103,845)** | **(25,832)** | **(7,184)** |
| Depreciation | | 312,588 | 530,274 | 241,482 | 109,227 | 1,618 | 340 |
| Amortisation | | 25,470 | 19,797 | 66,267 | 88,280 | 6,106 | 1,563 |
| **Net Profit/(Loss) before Tax** | | **(316,895)** | **(769,043)** | **(620,520)** | **(301,352)** | **(33,556)** | **(9,087)** |
| Deferred Tax | | 100,877 | - | - | - | - | - |
| **Net Profit/(Loss) as per audited statement of account** | **(A)** | **(216,018)** | **(769,043)** | **(620,520)** | **(301,352)** | **(33,556)** | **(9,087)** |
| **Adjustments** | | | | | | | |
| Adjustment on account of changes in accounting policies (Refer Note IV (1)) | | - | (21,850) | 25,379 | 8,232 | (5,467) | (6,294) |
| Adjustment on account of prior period Items (Refer Note IV (1)) | | - | 272,154 | 213,965 | 114,489 | 12,787 | (5,418) |
| **Total Adjustments** | **(B)** | **-** | **250,304** | **239,344** | **122,721** | **7,320** | **(11,712)** |
| **Adjusted Profit** | **(A) + (B)** | **(216,018)** | **(518,739)** | **(381,176)** | **(178,631)** | **(26,236)** | **(20,799)** |
| Carry Forward Profit/(Loss) from Previous Year | | (1,125,581) | (606,842) | (225,666) | (47,035) | (20,799) | - |
| **Profit/(Loss) transferred to Balance Sheet** | | **(1,341,599)** | **(1,125,581)** | **(606,842)** | **(225,666)** | **(47,035)** | **(20,799)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI TELENET LIMITED**

**II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED**

Assets and Liabilities of BTNL as at the end of each financial year and at the end of six months period ended September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | | |
| **Fixed Assets** | | | | | | |
| Gross Block | 5,938,405 | 5,567,140 | 3,623,900 | 1,271,795 | 52,420 | 34,692 |
| Less: Depreciation | 1,206,212 | 889,177 | 359,075 | 116,895 | 4,241 | 467 |
| **Net Block** | 4,732,193 | 4,677,963 | 3,264,825 | 1,154,900 | 48,179 | 34,225 |
| Capital Work In Progress (including Capital Advances) | 964,936 | 590,381 | 947,515 | 1,114,976 | 350,588 | 757 |
| **Total** | **5,697,129** | **5,268,344** | **4,212,340** | **2,269,876** | **398,767** | **34,982** |
| **Investments** | | | | | | |
| Long Term – Trade – Unquoted | 751,071 | 1,005 | - | - | - | - |
| Short Term – Non Trade – Quoted | 155,602 | 627,830 | - | 1,707,870 | 124,933 | - |
| **Total** | **906,673** | **628,835** | **-** | **1,707,870** | **124,933** | **-** |
| **Unamortised Entry Fee** | **312,907** | **322,806** | **342,603** | **362,418** | **382,216** | **393,181** |
| **Current Assets** | | | | | | |
| Cash & Bank Balances | 111,540 | 70,557 | 68,624 | 22,541 | 28,080 | 65,107 |
| Account Receivables | 80,189 | 52,851 | 69,323 | 16,431 | 3,357 | 548 |
| Loans & Advances | 782,699 | 740,532 | 165,570 | 407,376 | 528,953 | 7,977 |
| Inventories | - | 105 | 497 | 598 | 1,007 | 289 |
| **Total (A)** | **974,428** | **864,045** | **304,014** | **446,946** | **561,397** | **73,921** |
| **Current Liabilities & Provisions** | | | | | | |
| Sundry Creditors | 2,347,777 | 2,305,989 | 864,046 | 1,122,897 | 233,550 | 7,842 |
| Other Liabilities | 25,060 | 21,837 | 21,084 | 21,065 | 10,583 | 263 |
| Provisions | 8,546 | 201,451 | 120,798 | 38,193 | 4,329 | 1,543 |
| Advances from customers | 10,881 | 13,373 | 39,444 | 2,788 | 803 | - |
| **Total (B)** | **2,392,264** | **2,542,650** | **1,045,372** | **1,184,943** | **249,265** | **9,648** |
| **Net Current Assets (A-B)** | **(1,417,836)** | **(1,678,605)** | **(741,358)** | **(737,997)** | **312,132** | **64,273** |
| Deferred Tax Asset/(Liability) | 708,854 | 607,977 | 333,867 | 123,651 | 7,369 | (5,418) |
| **Pre-operative Expenditure** | **237,710** | **43,384** | **-** | **-** | **72,978** | **7,947** |
| Miscellaneous Expenditure (To the extent not written off or adjusted) | 93,397 | - | - | - | 1,045 | 1,653 |
| **TOTAL** | **6,538,834** | **5,192,741** | **4,147,452** | **3,725,818** | **1,299,440** | **496,618** |
| **SOURCES OF FUNDS** | | | | | | |
| **License Fees Payable** | **-** | **-** | **-** | **122,674** | **169,946** | **188,546** |
| Security Deposit | 229,105 | 4,116 | 1,502 | 303 | 242 | - |
| **Loan Funds** | | | | | | |
| Secured Loans | 2,830,000 | 2,750,000 | 2,000,000 | 1,700,000 | - | - |
| Unsecured Loans | 1,821,328 | 564,206 | 21,624 | 428,953 | 8,484 | - |
| **Total** | **4,880,433** | **3,318,322** | **2,023,126** | **2,129,256** | **8,726** | **-** |
| **Share Capital & Reserves** | | | | | | |
| Share Capital | 3,000,000 | 3,000,000 | 1,688,350 | 1,301,790 | 165,000 | 50,000 |
| Advance Share Application Money | - | - | 1,042,818 | 397,764 | 1,002,803 | 278,871 |
| **Profit and Loss Account** | **(1,341,599)** | **(1,125,581)** | **(606,842)** | **(225,666)** | **(47,035)** | **(20,799)** |
| **Total** | **1,658,401** | **1,874,419** | **2,124,326** | **1,473,888** | **1,120,768** | **308,072** |
| **TOTAL** | **6,538,834** | **5,192,741** | **4,147,452** | **3,725,818** | **1,299,440** | **496,618** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

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**BHARTI TELENET LIMITED**

**III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**1. FIXED ASSETS:**

Fixed Assets are stated at cost of acquisition and subsequent improvements thereto, including taxes, duties, freight and other incidental expenses related to acquisition and installation.

Capital work in progress is stated at cost.

**2. DEPRECIATION:**

Depreciation is provided on straight-line method to write off the cost of the fixed assets over their estimated useful lives as below:

| | Years |
|---|---|
| Plant & Machinery | 10 |
| Optical Fibre Cable/ Copper Cable | 15 |
| Building | 20 |
| Office Equipment | 3-5 |
| Mobile Phone | 3 |
| Computer | 3 |
| Vehicles | 5 |
| Furniture & Fixtures | 5 |
| Leasehold Land | Period of lease |
| Lease hold Improvements | Period of lease or 10 years whichever is lower |

Software upto Rs 0.50 million is written off in the year of purchase.

Impaired assets/ assets held for disposal are written down to their salvage value.

**3. REVENUE RECOGNITION AND RECEIVABLES:**

Billing revenue from Telephony and Internet service, and revenue from sale of goods, is recognised on completion of provision of services and despatch of goods respectively. Provision for doubtful debts is made for dues outstanding more than 90 days in case of active subscribers and dues from customers who have been deactivated, other than those covered by security deposits or in specific cases where management is of the view that the amounts are recoverable.

**4. INVENTORIES:**

Inventories are valued at lower of Cost and Net Realisable Value. Cost is determined on FIFO basis.

**5. INVESTMENT:**

Current Investments are valued at lower of cost and fair market value. Long Term investments are valued at cost. Provision is made for diminution in value to recognise a decline, if any, other than of temporary nature.

**6. LICENCE FEE:**

The fixed component of license fee payable by the Company, upon migration to the National Telecom Policy (NTP 1999), i.e. Entry Fee, has been capitalised as an asset. The Entry fee so capitalised is being amortised equally over the period of the license.

With effect from August 1, 1999 the variable license fee computed at prescribed rates of revenue share is being charged to the Profit and Loss Account in the year in which the related revenue arises. Revenue for this purpose comprises adjusted gross revenue as per the license agreement of the license area, to which the related license agreement pertains.

**7. TRANSLATION OF ITEMS IN FOREIGN CURRENCY:**

Transactions in Foreign Currency are recorded at the exchange rate prevailing at the date of the transaction. Monetary items are restated at year-end foreign exchange rates. Resultant exchange differences arising on payment or conversion of liabilities are recognised as Income or Expense in the year in which they arise except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed asset.

**8. RETIREMENT BENEFITS:**

The Company has provided for the liability on account of un-availed earned leave as per actuarial valuation. The Company contributes to a group Gratuity Scheme with Life Insurance Corporation of India to cover the gratuity liability for its employees in the Madhya Pradesh circle. Such contribution is charged to the Profit & Loss Account for the year. The liability on account of Gratuity as per the Payment of Gratuity Act 1972 for the Himachal Pradesh and other circles/ corporate office etc. is provided as per Actuarial Valuation.

**9. TAXES ON INCOME:**

Tax income for the period, comprising current tax and deferred tax is included in determining the net loss for the period.

However, in the year of transition, the accumulated deferred tax asset at the beginning of the year has been recognised with a corresponding credit to the Profit and Loss in accordance with Accounting Standard 22 issued by the Institute of Chartered Accountants of India.

Deferred tax assets are recognised for all deductible timing differences and carried forward to the extent it is probable that future taxable profit will be available against which such deferred tax assets can be realised.

Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted by the balance sheet date.

**10. EMPLOYEE STOCK OPTION:**

The aggregate amount of liability on account of Employee Stock Option Plan as ascertained at year end is being carried forward as Deferred Employee Compensation Benefit under Miscellaneous Expenditure to be written off on a straight line basis over the related vesting period of individual options.

**BHARTI TELENET LIMITED**

**IV NOTES TO ACCOUNTS**

**1. Adjustments/ Regroupings**

**Impact of Change in Accounting Policies / Prior period Items**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|---|
| **Loss as per audited statements of accounts** | **A** | **(216,018)** | **(769,043)** | **(620,520)** | **(301,352)** | **(33,556)** | **(9,087)** |
| ***Adjustment on account of:*** | | | | | | | |
| **Changes in accounting policies** | | | | | | | |
| Licence Fee | | - | (21,850) | 25,379 | 4,593 | (7,582) | (1,331) |
| Deferred Revenue Expenditure | | - | - | - | 3,639 | 2,115 | (4,963) |
| **Total** | **B** | **-** | **(21,850)** | **25,379** | **8,232** | **(5,467)** | **(6,294)** |
| **Impact of material adjustments relating to prior period items** | | | | | | | |
| Deferred Tax Adjustment | | - | 274,110 | 210,216 | 116,282 | 12,787 | (5,418) |
| Other Adjustments | | - | (1,956) | 3,749 | (1,793) | - | - |
| **Total** | **C** | **-** | **272,154** | **213,965** | **114,489** | **12,787** | **(5,418)** |
| **Adjusted Loss** | **(A) + (B) + (C)** | **(216,018)** | **(518,739)** | **(381,176)** | **(178,631)** | **(26,236)** | **(20,799)** |

**Notes:**

(a) **License Fee -** Upto the year ended March 31, 1999 the total minimum license fee committed to DoT for each year of the license was capitalised as an asset and corresponding liability accrued in the accounts. The license fee so capitalised was charged as an expense over the license period on the assumption of progressive growth of the related sales revenue on each succeeding year with a view to follow the matching concept, and the amount over and above the minimum payable amount, if any, was treated as revenue expenditure in the related year. The New Telecom Policy, 1999 divided the license fee into two parts i.e. Entry Fee and variable license fee based on revenue share, the entry fee, being the total license fee payable upto July 31, 1999. In view of the change in the licensing terms, the accounting policy was changed with the Entry Fee being amortised equally over the license period commencing from the effective date of the license. Accordingly each year's related expenditure as per the revised accounting policy has been accounted for in respective year for the restatement.

(b) **Deferred Revenue Expenses** - Upto the year ended March 31, 1998 Preliminary Expenses and deferred Revenue Expenditure, were amortised over the period of three years from the date of commencement of commercial operations. In 1999, BTNL changed its policy to charge off such expenses to profit and loss account, in the year of commencement of commercial operation. Accordingly each year's related expenditure has been charged off in respective year for the restatement.

(c) **Material Adjustments relating to prior period Items** - consists of expense arising in a year and pertaining to prior years though not classifiable as prior period expenditure, as the event resulting in the expenditure occurred only during the year in which accounted for.

(d) **Deferred Tax**- The Company has accounted for Deferred Tax Liability/Asset for current and earlier years in order to comply with the mandatory provisions of Accounting Standard-22 ' Taxes on Income' issued by the Institute of Chartered Accountants of India

**2. Non Adjustments/ Regroupings**

a) **Impact of changes in Accounting Estimates**

Upto year 1998-99, Depreciation was provided on a straight line basis at the rates and in the manner prescribed in Schedule XIV of the Indian Companies Act, 1956. In 1999-2000, BTNL revised the useful life estimates of the fixed assets and provided depreciation on a straight line basis as per the revised estimates of useful life specified in Statement of Significant Accounting policies (III), above, resulting in additional charge on account of depreciation of Rs.63.73 million, with a consequential impact on the loss for the year ended March 31, 2000 and the net assets of BTNL in accordance with Accounting Standard – 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and Accounting Standard – 6 "Depreciation Accounting" issued by the Institute of Chartered Accountants of India.

b) **Qualification in the Auditors' Report regarding remuneration to director in excess of limit specified by the Companies Act, 1956.**

BTNL had paid Rs. 446,957, Rs. 1,191,546, Rs. 1,119,523 and Rs. 356,300 in the year 1997-98, 1998-99, 1999-2000 and 2000-2001 respectively to Directors, which was in excess of remuneration payable under Section 198 of the Companies Act, 1956. The excess payment is pending Central Government approval and the same has not been adjusted in these financial statements.

c) **Qualification in Auditors' Report relating to non-adjustment of ESOP expenditure for the year due to variation in the IPO issue price of shares as compared to the price at which shares have been allotted to the ESOP trust.**

The employees of the Company have been granted options vide. an employee stock option plan for the employees of Bharti Tele-Ventures Limited and its subsidiaries on April 1, 2001. Bharti Tele-ventures Limited (BTVL) has allotted equity shares of Bharti Tele-Ventures Limited to the Employees' Welfare Trust (ESOP Trust) on August 31, 01 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

**3. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31, 1997 |
|---|---|---|---|---|---|---|
| (a) Contingent Liabilities on account of | | | | | | |
| - Guarantees Issued by Banks | 337,090 | 589,990 | 506,410 | 498,000 | 482,000 | 533,600 |
| - Wireless and Planning co-ordination fee | - | - | 5,990 | - | - | - |
| - Other claims against the Company not acknowledged as debts. | 180,165 | 169,160 | 168,780 | 24,450 | 200 | - |
| (b) Capital Commitments | | | | | | |
| Estimated amount of contracts, remaining to be executed on capital accounts (net of advances) | 790,810 | 315,190 | 683,110 | 2,409,700 | 4,313,720 | 1,460 |

4. a) The Company has computed Licence Fee and WPC fee as per norms issued by DoT vide. Circular dated July 26, 2001 where it recommended a revision of the license fee revenue share for MP Basic services at 10% of the adjusted gross revenue as defined in the said circular for both Wireline and Wireless in Local Loop (WLL) services and an additional 2% revenue share on adjusted gross revenue from WLL services towards Wireless Planning Co-ordination fees w.e.f August 1, 1999. The adjusted gross revenue is computed by Company based on separate division accounts maintained therefor and does not include any amount of income/ expenditure included in Himachal Pradesh CMTS, New Projects, Corporate Office and President's Office for which separate division accounts are maintained.

b) For H.P. Cellular Mobile Telephony Service (CMTS), last year the Company had provided for license fee on the basis of 15% of net service revenues with effect from August 1, 1999 ie post migration to the NTP 99 regime as provisionally fixed by Department of Telecommunications (DoT).

During the year, DoT issued amendments to the existing license agreements for CMTS, which has been accepted by the Company, resulting in the following changes:

i. Annual license fee @15% of Adjusted Gross Revenue (AGR) is payable with effect from August 1, 1999 to January 25, 2001 and @ 8% of AGR thereafter.

ii. WPC spectrum charges are payable for use of cellular spectrum upto 4.4 Mhz / 6.2 Mhz at the rate of 2%/ 3% respectively of AGR with effect from August 1, 1999, WPC microwave royalty being continued to be charged as per the rules laid down by the DoT WPC wing as earlier.

iii. The CMTS operator is permitted to provide fixed phones based on existing GSM cellular network infrastructure in the licensed area.

iv. Guidelines have been issued for issuance of license for basic services to provide the use of hand held set with wireless access system in the local area (WLL).

While the aforesaid amendments are subject to the ongoing litigation relating to the 1999 migration package and the WLL matter, in the Delhi High Court and TDSAT respectively, as the Company has unconditionally accepted and signed the revised license agreement, the revenue share license fee and WPC charges have been accounted for in line with the changes as above.

5. The Company has licences to provide cellular services in the state of Himachal Pradesh and basic telephone services in the state of Madhya Pradesh (M.P.). The Company commenced commercial operations of cellular services in Himachal Pradesh (H.P.) in 1996-97 and commenced commercial operations of basic telephone service in Madhya Pradesh in June 1998. The Company has got licences for basic telephony in the states of Haryana, Tamil Nadu, Karnataka and Delhi. All the expenses incurred for the new circles have been considered as preoperative expenditure and will be allocated to the Fixed Assets/ Deferred Revenue Expenditure respectively in the related years of commencement of commercial operations.

6. a) The employees of the Company have been granted options vide an employee stock option plan for the employees of Bharti Tele-Ventures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited has allotted equity shares of Bharti Tele-Ventures Limited to the Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

The Company has advanced an amount of Rs. 215 million to the ESOP Trust towards total cost of equity shares to be allotted to its employees at the price at which the shares have been issued to the trust.

b) The expenditure on ESOP plan as presently ascertained has been recognised as an expense in these accounts as explained in Clause 10 on Note III above; the adjustment required therein due to the variation in the IPO issue price as compared to the pre-determined price as explained in para (a) above, which is presently not ascertainable will be made in the accounts for the subsequent year.

# APPENDIX : C

**BHARTI MOBILE LIMITED (“BML”)**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BML for the five financial years ended March 31, 2001 and for the period April 1, 2001 to September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| **INCOME** | | | | | | |
| Gross Billing Revenue | 1,990,067 | 2,593,029 | 1,085,168 | 807,479 | 409,044 | 23,725 |
| Less: MTNL Access Charges | 298,673 | 431,201 | 200,304 | 175,577 | 94,842 | 2,976 |
| **Net Billing Revenue** | **1,691,394** | **2,161,828** | **884,864** | **631,902** | **314,202** | **20,749** |
| Sale of Goods (Traded) | - | 14,792 | 19,026 | 105,603 | 190,656 | 41,090 |
| **Total** | **1,691,394** | **2,176,620** | **903,890** | **737,505** | **504,858** | **61,839** |
| Other Income | 117,095 | 60,652 | 6,915 | 171,393 | 2,690 | 5,202 |
| **Total Income** | **1,808,489** | **2,237,272** | **910,805** | **908,898** | **507,548** | **67,041** |
| **EXPENDITURE** | | | | | | |
| Network Operating Expenses | 290,338 | 273,037 | 187,785 | 60,701 | 94,155 | 9,948 |
| Cost of Sales of Goods (Traded) | - | 14,805 | 17,805 | 97,853 | 192,597 | 43,086 |
| Employee Cost | 126,976 | 167,934 | 83,411 | 76,053 | 63,007 | 11,850 |
| Sales & Marketing Expenses | 269,900 | 546,794 | 113,326 | 77,766 | 99,719 | 65,687 |
| Administrative & Other Expenditure | 213,544 | 302,670 | 189,609 | 176,736 | 338,725 | 44,384 |
| **Total Expenditure** | **900,758** | **1,305,240** | **591,936** | **489,109** | **788,203** | **174,955** |
| **Profit/(Loss)(EBITDA)** | **907,731** | **932,032** | **318,869** | **419,789** | **(280,655)** | **(107,914)** |
| Finance Expenses | 347,029 | 376,829 | 515,686 | 725,139 | 274,980 | 20,450 |
| License Fee – Revenue Share | 220,674 | 325,902 | 93,425 | - | - | - |
| Entry Fee and other amortisation | 165,332 | 330,663 | (303,739) | - | - | - |
| **Profit / (Loss) before Depreciation** | **174,696** | **(101,362)** | **13,497** | **(305,350)** | **(555,635)** | **(128,364)** |
| Depreciation | 251,428 | 361,733 | 267,768 | 990,518 | 790,282 | 117,709 |
| **Profit / (Loss) before tax for the year** | **(76,732)** | **(463,095)** | **(254,271)** | **(1,295,868)** | **(1,345,917)** | **(246,073)** |
| Provision for Tax | - | - | - | - | - | 306 |
| Deferred Tax | 13,673 | - | - | - | - | - |
| **Profit / (Loss) for the year as per audited statement of accounts (A)** | **(63,059)** | **(463,095)** | **(254,271)** | **(1,295,868)** | **(1,345,917)** | **(246,379)** |
| **Adjustments on account of:** | | | | | | |
| Impact of material adjustments and prior period items. (Refer Note (IV(1)) | 56,327 | 96,478 | (89,391) | (468,067) | 780,732 | (94,412) |
| Impact of changes in accounting policies (Refer Note (IV(1)) | - | - | (624,694) | 447,333 | 162.635 | 14,699 |
| Impact of qualification in Auditors' report (Refer Note (IV(1)) | (12,887) | (596,314) | (85,895) | (86,044) | (236,672) | (7,544) |
| **Total Adjustments (B)** | **43,440** | **(499,836)** | **(799,980)** | **(106,778)** | **706,695** | **(87,257)** |
| **Adjusted Profit / (Loss) (A) + (B)** | **(19,619)** | **(962,931)** | **(1,054,251)** | **(1,402,646)** | **(639,222)** | **(333,636)** |
| Carry Forward Profit/(Loss) from Previous Year | (4,392,686) | (3,429,755) | (2,375,504) | (972,858) | (333,636) | - |
| **Profit/(Loss) transferred to Balance Sheet** | **(4,412,305)** | **(4,392,686)** | **(3,429,755)** | **(2,375,504)** | **(972,858)** | **(333,636)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI MOBILE LIMITED**

**II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED**

Assets and Liabilities of BML as at the end of each financial year and at the end of six months period ended September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | | |
| **Fixed Assets** | | | | | | |
| Gross Block | 5,405,832 | 4,750,967 | 2,497,539 | 2,518,230 | 2,626,190 | 1,699,454 |
| Less : Depreciation | 1,560,100 | 1,298,698 | 917,834 | 787,979 | 579,840 | 271,074 |
| Net Block | 3,845,732 | 3,452,269 | 1,579,705 | 1,730,251 | 2,046,350 | 1,428,380 |
| Capital Work in Progress (including capital advances) | 737,255 | 669,712 | 527,139 | 55,187 | 25,493 | 429,553 |
| **Total** | **4,582,987** | **4,121,981** | **2,106,844** | **1,785,438** | **2,071,843** | **1,857,933** |
| **Investments** | **841,780** | **967,255** | **300,000** | **300,000** | **300,000** | **300,000** |
| **Entry Fees ( Unamortised)** | **4,728,147** | **4,893,479** | **5,224,142** | **5,554,806** | **5,885,469** | **6,216,133** |
| **Current Assets, Loans and Advances** | | | | | | |
| Inventories | 19,214 | 18,557 | 4,310 | 7,335 | 12,230 | 59,858 |
| Sundry Debtors | 456,841 | 396,420 | 175,540 | 149,919 | 101,039 | 15,402 |
| Cash and Bank Balances | 144,165 | 245,969 | 94,778 | 154,872 | 37,174 | 64,623 |
| Loans and Advances | 5,384,004 | 287,595 | 506,095 | 99,770 | 3,310,498 | 805,457 |
| **Total (A)** | **6,004,224** | **948,541** | **780,723** | **411,896** | **3,460,941** | **945,340** |
| **Current Liabilities and Provisions** | | | | | | |
| Current Liabilities | 2,456,074 | 2,558,108 | 1,223,969 | 3,853,513 | 8,218,949 | 5,276,564 |
| Provision for Staff Benefit | 7,885 | 11,768 | 7,154 | 5,820 | 2,559 | 800 |
| **Total (B)** | **2,463,959** | **2,569,876** | **1,231,123** | **3,859,333** | **8,221,508** | **5,277,364** |
| **Net Current Assets (A-B)** | **3,540,265** | **(1,621,335)** | **(450,400)** | **(3,447,437)** | **(4,760,567)** | **(4,332,024)** |
| Deferred Tax Asset | 295,340 | 281,667 | 142,461 | 270,832 | 122,317 | (61,994) |
| Miscellaneous Expenditure (To the extent not written off or adjusted) | 46,084 | - | - | - | - | 22 |
| **Profit and Loss Account** | **4,412,305** | **4,392,686** | **3,429,755** | **2,375,504** | **972,858** | **333,636** |
| **TOTAL** | **18,446,908** | **13,035,733** | **10,752,802** | **6,839,143** | **4,591,920** | **4,313,706** |
| **SOURCES OF FUNDS** | | | | | | |
| **Loan Funds** | | | | | | |
| Secured Loans | 5,301,809 | 3,031,135 | 1,112,523 | 400,128 | 401,957 | 403,523 |
| Unsecured Loans | 6,460,080 | 3,375,799 | 2,923,719 | 1,488,556 | 442,169 | 323,653 |
| **Total** | **11,761,889** | **6,406,934** | **4,036,242** | **1,848,684** | **844,126** | **727,176** |
| Security Deposit | 403,507 | 347,287 | 189,135 | 144,092 | 85,296 | 26,032 |
| **Share Capital & Reserves** | | | | | | |
| Share Capital | 5,500,000 | 5,500,000 | 3,000,000 | 3,000,000 | 3,000,000 | 3,000,000 |
| Advance against Equity | 781,512 | 781,512 | 3,527,425 | 1,846,367 | 662,498 | 560,498 |
| **TOTAL** | **18,446,908** | **13,035,733** | **10,752,802** | **6,839,143** | **4,591,920** | **4,313,706** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI MOBILE LIMITED**

**III SIGNIFICANT ACCOUNTING POLICIES**

**(i) Method of Accounting**

The Company adopts the historical cost concept and accrual basis in the preparation of its accounts.

**(ii) Fixed Assets and Depreciation**

Fixed assets are stated at their original cost of acquisition and subsequent improvements thereto including taxes, duties, freight and other incidental expenses related to acquisition and installation of the assets concerned. Incidental expenditure incurred prior to commencement of commercial operation is also capitalized where appropriate.

Depreciation is provided from the day of capitalization on a Straight Line Method (SLM) at the rates prescribed in the Schedule XIV to the Companies Act, 1956 except for the following:

| | | | | | |
|---|---|---|---|---|---|
| (i) | Computer equipment | 33.33% | (iv) | Furniture and Fittings | 20.00 % |
| (ii) | Cellular Mobile Telephone Handsets | 33.33% | (v) | Plant and Machinery | 10.00% |
| iii) | Office Equipment | 33.33% | (vi) | Vehicles | 20.00% |

Leasehold improvements are amortised over the period of lease.

**(iii) Investments**

Long term Investments are valued at cost. Provision is made for diminution in value to recognise a decline, if any, other than of temporary nature. Current Investments are valued at lower of cost and fair market value.

**(iv) Inventories**

Inventories are valued at lower of Cost and Net Realisable Value. Cost is determined on FIFO basis.

**(v) Sundry Debtors**

Sundry debtors balances to the extent they are covered by deposit from customers are considered as secured.

Provision for doubtful debts is made for dues outstanding more than 90 days in case of active subscribers and dues from customers who have been suspended and deactivated, other than those covered by security deposits or in specific cases where management is of the view that the amounts are recoverable.

**(vi) Deferred Revenue Expenditure**

**License Fee**

The fixed component of license fee payable by the Company, upon migration to the National Telecom Policy (NTP 1999), i.e., Entry Fee, has been capitalised as an asset. The Entry fee so capitalised is being amortised equally over the period of the license.

With effect from August 1, 1999 the variable license fee computed at prescribed rates of revenue share is being charged to the Profit and Loss Account in the year in which the related revenue arises. Revenue for this purpose comprises adjusted gross revenue as per the license agreement of the license area to which the related license agreement pertains.

**Employee Stock Option**

The aggregate amount of liability on account of Employee Stock Option Plan as ascertained at year end is being carried forward as Deferred Employee Compensation Benefit under Miscellaneous Expenditure to be written off on straight line basis over the related vesting period of individual options.

**(vii) Translation of items in foreign currency**

Transactions in Foreign Currency are recorded at the exchange rate prevailing at the date of the transaction. Monetary items are restated at year-end foreign exchange rates. Resultant exchange differences arising on payment or conversion of liabilities are recognised as Income or Expense in the year in which they arise except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed asset.

**(viii) Revenue recognition**

Revenue for the product sales is recognized on despatch and is net of sales tax. Revenue against use of Cellular Mobile Telephone Services (CMTS) are recognized when services are rendered after considering discounts availed and are net of service tax.

**(ix) Retirement benefits**

Retirement benefits are paid to recognized funds as per statutes except for gratuity and leave encashment liability which are accrued for on an estimated basis.

**(x) Taxation**

Tax expense for the period, comprising current year tax and deferred tax is included in determining the net profit/(loss) for the period.

**BHARTI MOBILE LIMITED**

**IV NOTES TO ACCOUNTS**

**1. Adjustments/ Regroupings**

**Impact of Change in Accounting Policies / Prior Period Items / Qualification in Auditors' Report**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|---|
| **Profit / (Loss) as per audited statements of accounts** | **A** | **(63,059)** | **(463,095)** | **(254,271)** | **(1,295,868)** | **(1,345,917)** | **(246,379)** |
| **Adjustment on account of:** | | | | | | | |
| ***Changes in Accounting Policy:*** | | | | | | | |
| License Fee | | - | - | (634,402) | 779,489 | 500,443 | 85,075 |
| Entry fee amortistion | | - | - | - | (330,664) | (330,663) | (69,305) |
| Provision for doubtful debts | | - | - | 9,708 | (1,492) | (7,145) | (1,071) |
| **Total** | **B** | **-** | **-** | **(624,694)** | **447,333** | **162,635** | **14,699** |
| ***Material adjustments and prior period items:*** | | | | | | | |
| Prior Period Items | | - | 753 | 51,826 | (52,579) | 34,196 | (34,196) |
| License Fee & WPC Fee | | 56,327 | (43,481) | (12,846) | - | - | - |
| Deferred Tax | | - | 139,206 | (128,371) | 148,515 | 184,311 | (61,994) |
| Other Adjustments | | - | - | - | (564,003) | 562,225 | 1,778 |
| **Total** | **C** | **56,327** | **96,478** | **(89,391)** | **(468,067)** | **780,732** | **(94,412)** |
| **Qualifications in the Auditor' Report** | | | | | | | |
| Debit notes from Promoters | | (12,887) | (16,314) | (85,895) | (86,044) | (236,672) | (7,544) |
| Provision for diminution in value of Investment | | - | (300,000) | - | - | - | - |
| Amounts recoverable relating to a subsidiary | | - | (280,000) | - | - | - | - |
| | **D** | **(12,887)** | **(596,314)** | **(85,895)** | **(86,044)** | **(236,672)** | **(7,544)** |
| **Adjusted Profit/ (Loss)** | **(A+B+C+D)** | **(19,619)** | **(962,931)** | **(1,054,251)** | **(1,402,646)** | **(639,222)** | **(333,636)** |

**Notes:**

a) **License Fee -** During the year 1999-2000 the Government of India introduced the New Telecom Policy (NTP), 1999 which divided the license fee into two parts i.e. Entry fee and variable license fee based on revenue share. The entry fee being the total license fee dues payable upto July 31, 1999. Further, the license period was extended from ten years to twenty years. In the year 1999-2000 the entry fee was treated as deferred revenue expenditure to be amortised equally over 20 years i.e. life of the license commencing from the effective date of the license. Accordingly in view of the change in accounting policy each year's related expenditure has been charged off in respective year for the restatement.

Upto last year the Company had provided for revenue share license fee on the basis of 15% as provisionally fixed by Department of Telecommunications (DoT) of net service revenues with effect from August 1, 1999 i.e. post migration to the NTP 99 regime. During the year, DoT issued amendments to the existing license agreements for CMTS, which has been accepted by the Company, resulting in the following changes:

(i) Annual license fee @15% of Adjusted Gross Revenue (AGR) is payable with effect from August 1, 1999 to January 25, 2001and @ 12% of AGR thereafter.

(ii) WPC spectrum charges are payable for use of cellular spectrum upto 4.4 Mhz / 6.2 Mhz at the rate of 2%/ 3% respectively of AGR with effect from August 1, 1999. WPC microwave royalty continue to be charged as per the earlier rules laid down by the WPC wing of DoT.

(iii) The CMTS operator is permitted to provide fixed phones based on existing Global System for Mobile Communication (GSM) cellular network infrastructure in the licensed area.

(iv) Guidelines have been set for issuing license for basic services for providing the use of hand held set with wireless access system in the local area (WLL). While the aforesaid amendments are subject to the ongoing litigation relating to the 1999 migration package and the WLL matter, in the Honorable Delhi High Court and TDSAT respectively, as the Company has unconditionally accepted and signed the revised license agreement, the revenue share license fee and WPC charges have been accounted for in line with the changes as above and each year's related expenditure has been charged in the respective year for the reinstatement.

**b) Provision for doubtful debts** – From the year ended March 31, 2000, provision for doubtful debts was made in the accounts on the basis as explained in Note III (v) above, while for the earlier years the said provision was made on an estimated basis. In these statements, the policy for provisioning as now being followed has been applied for the earlier years.

**c) Prior Period Items -** Prior Period adjustments as disclosed in the Profit and Loss Account/ Balance Sheet have been adjusted in the respective year for restatement.

d) **Other Adjustments** - Miscellaneous Adjustments consists of Income or expense arising in a year pertaining to prior years though not classifiable as prior period expenditure, as the event resulting in the expenditure occurred only during the year in which accounted for.

e) **Debit note from Foreign Promoters** - Pending approval from the regulatory authorities, claims from the foreign promoters towards technical service fees, interest on bridge loan and for certain expenses had not been provided for in the respective years, which have now been adjusted in respective years.

f) **Non-provision for diminution in the value of Investment** – The Diminution in the value of investments made in Evergrowth Telecom Limited (ETL), a wholly owned subsidiary Company, Rs. 300,000, since the accumulated loss of the subsidiary exceeds its paid up share capital, was not accounted in the financial statements. Which has now been adjusted.

g) **Non-provision of a amount recoverable relating to a subsidiary** – These pertain to amounts recoverable against bank guarantee encashment by DoT of bank guarantees given on behalf of ETL Rs. 280 million, which have now been adjusted being considered as doubtful of recovery.

h) **Deferred Tax**- The Company has accounted for Deferred Tax Liability / Asset for current and earlier years in order to comply with the mandatory provisions of Accounting Standard-22 ' Taxes on Income' issued by the Institute of Chartered Accountants of India

**2. Non-Adjustments/ Regroupings**

**a) Impact of changes in Accounting Estimates**

Upto year 1998-99, Depreciation was provided on a straight line basis at the rates and in the manner prescribed in Schedule XIV of the Indian Companies Act, 1956. In 1999-2000, BML revised the useful life estimates of the fixed assets and provided depreciation on a straight line basis as per the revised estimates of useful life specified in Statement Accounting policies (Note – III), above, resulting in additional charge on account of depreciation of Rs. 33.63 million, with a consequential impact on the profit for the year ended March 31, 2000 and the net assets of BML in accordance with Accounting Standard – 5 "Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies" and Accounting Standard – 6 "Depreciation Accounting" issued by the Institute of Chartered Accountants of India.

**b) Qualification in the Auditors' Report regarding remuneration to director in excess of limit specified by the Companies Act, 1956.**

BML had paid Rs. 1,274,855 and Rs. 669,000 in the year 2000-01 and 1999-2000 respectively to Directors, which was in excess of remuneration payable under Section 198 of the Companies Act, 1956. The excess payment is pending Central Government approval and the same has not been adjusted in these financial statements.

**c) Qualification in the Auditors' Report regarding non-adjustment of certain assets and liabilities relating to Cellular Mobile Telephone Service of Punjab Circle operated through Evergrowth Telecom Limited (ETL) and regarding non recognition of expenditure relating to licence fees, WPC charges, interest and liquidated damages for past and current periods relating to the Punjab licence pending determination of the related amounts by arbitration.**

BML was awarded license by the DoT to operate cellular services in the state of Punjab in December 1995. Pursuant to the Company's application, the DOT, GOI vide its letter No. 842-65(A)/97-VAS dated March 10, 1998 had agreed in principle for the operation of the CMTS in Punjab by Evergrowth Telecom Limited (ETL), a 100% owned subsidiary of the Company. The license fees, related corporate expenses, interest charges, etc., paid towards the Punjab circle and recoverable from ETL till March 1998 was reflected through the Profit and Loss Account / Incidental Expenditure During Pre-Operative Period to the extent these were expensed off in the books.

Pursuant to a tripartite agreement dated September 5, 1996 between the Company, Essar Investments Ltd. (Essar) and ETL, Essar was to arrange all the funding that may be required by ETL for the implementation and operation of Punjab CMTS.Essar also agreed to indemnify the Company against any loss suffered by the Company due to breach of agreement by Essar or ETL. ETL was not managed and / or controlled by BML.

The Company had decided to exclude from its books the assets and liabilities relating to the Punjab Circle. However, the Accounts for the year include Rs.280 million and Rs. 300 million representing recoverable from ETL on account of encashment of Bank Guarantee towards license fee payable for ETL given on behalf of the subsidiary Company which has been included under Loans and advances and investments made in ETL respectively, which have been adjusted in these financial statements as explained in note (iv) (1) (f) and (1) (g) above. However, the financial statements have not been adjusted to include the other assets and liabilities referred to above.

During the year DoT vide its letter dated September 19, 2001 offered a package for restoration of the terminated cellular license in relation to Punjab circle on payment of all outstanding dues under the license ie WPC dues, liquidated damages, interest and license fee aggregating Rs 4,910 million. On payment of the above DoT demand of Rs 4,910 million, the Punjab license has been restored to the Company. Further the restoration order permitted the operation of the license by the Company with a stipulation that no request would be raised for implementation of the license through any subsidiaries, including ETL.

Pursuant to acceptance of the restoration offer the Company has informed Essar of the termination of the financial arrangement entered with them.

The Company has disputed its liability to pay Rs. 4,910 million as it includes license fee and interest thereon for a period of 693 days between April 1996, to March 1998, during which Company was prevented by DoT from offering cellular services in Punjab. The dispute has been referred to an arbitrator. Pending decision from the arbitrator, no adjustment has been made in the accounts for expenditure for earlier periods relating to WPC, interest, liquidated damages and license fees and the same is disclosed under Advances in the Balance Sheet.

**d) Qualification in Auditors' Report relating to non-adjustment of ESOP expenditure for the year due to variation in the IPO issue price of shares as compared to the price at which shares have been allotted to the ESOP trust.**

The employees of the company have been granted options vide. an employee stock option plan for the employees of Bharti Tele-

Ventures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited (BTVL) has allotted equity shares of Bharti Tele-Ventures Limited to the Employees' Welfare Trust (ESOP Trust) on August 31, 01 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

**3. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

(Rs.'000)

| **Particulars** | **September 30, 2001** | **March 31, 2001** | **March 31, 2000** | **March 31, 1999** | **March 31, 1998** | **March 31,1997** |
|---|---|---|---|---|---|---|
| (a) Contingent Liabilities on account of | | | | | | |
| - Guarantees Issued by Banks | 1,017,809 | 563,272 | 483,096 | 755,596 | 3,426,889 | 2,926,364 |
| - Wireless and Planning co-ordination fee | - | 58,074 | 48,014 | 38,546 | - | - |
| - Disputed Sales Tax | 19,793 | 19,793 | 6,008 | 9,068 | - | - |
| - Liquidated Damages | - | - | - | 18,000 | - | - |
| (b) Capital Commitments | | | | | | |
| Estimated amount of contracts, remaining to be executed on capital accounts (net of advances) | 554,488 | 46,598 | 402,600 | 12,566 | 7,224 | 1,484,244 |

4.a) The employees of the company have been granted options vide. an employee stock option plan for the employees of Bharti Televentures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited has allotted equity shares of Bharti Tele-Ventures Limited to the Employees' Welfare Trust (ESOP Trust) on August 31, 01 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

The Company has advanced an amount of Rs.129 million to the ESOP Trust towards total cost of equity shares to be allotted to its employees at the price at which the shares have been issued to the trust.

b) The expenditure on ESOP plan as presently ascertained has been recognised as an expense in these accounts as explained in Clause (vi) on Note III above; the adjustment required therein due to the variation in the IPO issue price as compared to the pre- determined price as explained in para (a) above, which is presently not ascertainable will be made in the accounts for the subsequent year.

## APPENDIX : D

**BHARTI BT INTERNET LIMITED ("BBTIL")**

**I SUMMARY PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BBTIL for the two financial years ended March 31, 2001 and for the period April 1, 2001 to September 30,2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 |
|---|---|---|---|
| **INCOME** | | | |
| Service Revenue | 65,397 | 146,815 | 114,480 |
| Advertisement Revenue | 2,544 | 6,917 | 1,300 |
| Other Income | 588 | 3,274 | 1,402 |
| Trading sales | 4,964 | 17,428 | - |
| **Total Income** | **73,493** | **174,434** | **117,182** |
| **EXPENDITURE** | | | |
| Cost of Goods Sold-Trading Sales | 4,642 | 15,000 | - |
| Network Operating | 136,627 | 237,400 | 70,731 |
| Cost of Sales | - | - | - |
| Personnel | 41,313 | 71,813 | 32,175 |
| Sales and Marketing | 17,759 | 154,157 | 76,731 |
| Administrative and Others | 21,808 | 55,876 | 24,757 |
| **Total Expenditure** | **222,149** | **534,246** | **204,394** |
| **Profit/(Loss) (EBITDA)** | **(148,656)** | **(359,812)** | **(87,212)** |
| Finance Expenses | 268 | 1,268 | 506 |
| Amortisation | - | - | 20,281 |
| **Profit/(Loss) before Depreciation** | **(148,924)** | **(361,080)** | **(107,999)** |
| Depreciation | 53,347 | 62,237 | 24,740 |
| **Net Profit/(Loss) before Tax** | **(202,272)** | **(423,317)** | **(132,739)** |
| Provision For Tax | - | - | - |
| **Net Profit/(Loss) as per audited Statement of accounts (A)** | (202,272) | (423,317) | (132,739) |
| **Adjustments :** | | | |
| Adjustment on account of change in Accounting Policy (Refer Note IV – 1) | 40,326 | 32,835 | (73,161) |
| **Total Adjustments (B)** | **40,326** | **32,835** | **(73,161)** |
| **Adjusted Profit / (Loss) (A) + (B)** | **(161,946)** | **(390,482)** | **(205,900)** |
| Carry Forward Profit/(Loss) from Previous Year | (596,382) | (205,900) | - |
| **Profit/(Loss) transferred to Balance Sheet** | **(758,328)** | **(596,382)** | **(205,900)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI BT INTERNET LIMITED**

**II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED**

Assets and Liabilities of BBTIL as at the end of each financial year and at the end of six months period ended September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 |
|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | |
| **Fixed Assets** | | | | |
| Gross Block | 515,452 | 489,382 | 163,038 | 24,754 |
| Less: Depreciation | 141,530 | 88,376 | 26,141 | 602 |
| Net Block | 373,922 | 401,006 | 136,897 | 24,152 |
| Capital Work In Progress (including capital Advances) | 22,307 | 46,806 | 21,262 | 43,325 |
| **Total** | **396,229** | **447,812** | **158,159** | **67,477** |
| **Preoperative Expenditure** | **-** | **-** | **-** | **23,147** |
| **Investments :** | | | | |
| Non Trade Investments | - | - | 9,915 | - |
| **Current Assets, Loans and Advances** | | | | |
| Inventories | 945 | 1,453 | - | - |
| Sundry Debtors | 15,565 | 23,166 | 15,938 | - |
| Cash & Bank Balances | 6,448 | 10,456 | 9,864 | 111,722 |
| Loans & Advances | 52,747 | 142,414 | 75,272 | 14,305 |
| **Total (A)** | **75,705** | **177,489** | **101,074** | **126,027** |
| **Current Liabilities and Provisions** | | | | |
| Sundry Creditors | 167,690 | 157,338 | 123,376 | 15,476 |
| Provisions | 1,363 | 698 | 372 | 69 |
| **Total (B)** | **169,053** | **158,036** | **123,748** | **15,545** |
| **Net Current Assets (A) - (B)** | **(93,348)** | **19,453** | **(22,674)** | **110,482** |
| Miscellaneous Expenditure (to the extent not written off or adjusted) | 15,194 | - | - | 26 |
| **Profit And Loss Account** | **758,328** | **596,382** | **205,900** | **-** |
| **TOTAL** | **1,076,403** | **1,063,647** | **351,300** | **201,132** |
| **SOURCES OF FUNDS** | | | | |
| **Share Capital & Reserves** | | | | |
| Share Capital | 500,000 | 500,000 | 163,400 | - |
| Advance Share Application Money | - | - | 24,500 | 201,132 |
| Share Premium | 563,647 | 563,647 | 163,400 | - |
| Unsecured Loan | 12,756 | | | |
| **TOTAL** | **1,076,403** | **1,063,647** | **351,300** | **201,132** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI BT INTERNET LIMITED**

**III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**1. FIXED ASSETS**

Fixed Assets are stated at cost of acquisition and subsequent improvements thereto, including taxes, duties, freight and other incidental expenses related to their acquisition and installation.

Capital work in progress is stated at cost.

**2. INVENTORIES**

Inventories are valued at the lower of cost or net realisable value. Cost is determined on First in First out basis.

**3. DEPRECIATION**

Depreciation is provided on a straight line basis in the manner and at the rates mentioned below:

i. Network Computers at 19.00% per annum.

ii. Software at 31.66% (except software costing less than Rs 0.1 million which is charged off in the year of purchase).

iii. Office Computers and other office equipment at 23.75% per annum.

iv. Leasehold Improvements are depreciated over the period of lease, Furniture and Fixtures, Electrical equipment, Air conditioner and Generators at 15.83% per annum.

v. Gateways at 19.00% per annum.

Assets costing less than Rs 5,000 are depreciated at 100% per annum.

**4. REVENUE RECOGNITION**

Service Revenues comprise revenues from registration to and provision of Internet service. Registration fees is recognised at the time of dispatch and invoicing of Start Up Kits and income on prepaid sales is recognised on the basis of Usage by the subscribers and is net of sales returns and discounts. Service revenues from post paid and corporate sales are recognised on provision of services.

Advertisement revenues are on the advertisements served on Company's website and also include third party promotions and advertisements on Start Up Kits, which is recognised on provision of services as per contract.

Provision for doubtful debts is made for dues outstanding more than 90 days and dues from customers who have been deactivated, other than those covered by security deposits or in specific cases where the management is of the view that the amounts are recoverable.

**5. FOREIGN EXCHANGE FLUCTUATION**

Transactions in foreign currency are recorded at the exchange rate prevailing at the date of transaction. Monetary items are restated at year end foreign exchange rates. Resultant exchange differences arising on payment or conversion of liabilities are recognised as income or expense in the year in which they arise except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed assets.

**6. RETIREMENT BENEFITS**

The Company has provided for the liability on account of unavailed earned leave and gratuity liability under the Payment of Gratuity Act, 1972 payable to its employees as per Actuarial Valuation.

**7. TAXES ON INCOME**

Tax income for the period, comprising current tax and deferred tax is included in determining the net loss for the period.

However, in the year of transition, the accumulated deferred tax asset at the beginning of the year has been recognised with a corresponding credit to the Profit and Loss in accordance with Accounting Standard 22 issued by the Institute of Chartered Accountants of India.

Deferred tax assets are recognised for all deductible timing differences and carried forward to the extent it is probable that future taxable profit will be available against which such deferred tax assets can be realised.

Deferred tax assets and liabilities are measured at the tax rates that have been enacted or substantively enacted by the balance sheet date.

**8. EMPLOYEE STOCK OPTION**

The aggregate amount of liability on account of Employee Stock Option Plan as ascertained at year end is being carried forward as Deferred Employee Compensation Benefit under Miscellaneous Expenditure to be written off on a straight line basis over the related vesting period of individual options.

**BHARTI BT INTERNET LIMITED**

**IV NOTES TO ACCOUNTS**

**1 Adjustments/ Regroupings**

**Adjustment on account of change in accounting policy.**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 |
|---|---|---|---|---|
| **Loss as per audited statements of accounts** | **A** | (202,272) | (423,317) | (132,739) |
| Adjustment on account of change in Accounting Policy | | | | |
| **Service Revenue** | **B** | 40,326 | 32,835 | (73,161) |
| **Adjusted Loss (A) + (B)** | | **(161,946)** | **(390,482)** | **(205,900)** |

**Notes:**

**Notes:**

(a) **Service Revenue –** Upto last year BBTIL recognised revenue from pre-paid sales at the time of dispatch and not based on usage by the subscriber of the dial up packs. During the current period, the Company has changed the accounting policy of recognising revenue from sale of Dial-up packs on dispatch basis to recognising revenue on the actual usage basis in order to comply with provisions of Accounting Standard- 9 issued by the Institute of Chartered Accountants of India. Accordingly, the service revenue for the respective years has been restated in conformity with the revised revenue recognition policy as above.

**2. Non-Adjustments/Regroupings**

**a) Qualification in Auditors' Report relating to non-adjustment of ESOP expenditure for the year due to variation in the IPO issue price of shares as compared to the price at which shares have been allotted to the ESOP trust.**

The employees of the Company have been granted options vide an employee stock option plan for the employees of Bharti Tele-Ventures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited (BTVL) has allotted equity shares of BTVL to the Bharti Tele-Ventures Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

**3. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

**(Rs.'000)**

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 |
|---|---|---|---|---|
| (a) Contingent Liabilities on account of | | | | |
| - Guarantees Issued by Banks | 37,686 | 39,810 | 20,000 | 20,000 |
| - Other claims against the Company not acknowledged as debts. | 28,243 | 2,150 | - | - |
| (b) Capital Commitments Estimated amount of contracts, remaining to be executed on capital accounts (net of advances) | 25,630 | 49,090 | 35,500 | 7,600 |

4. In June 2001 a scheme of amalgamation has been filed between Bharti BT Internet Ltd. (Transferee Company) and Bharti Telespatial Ltd., Bharti Broadband Networks Ltd. and Bharti BT Ltd. (Transferor Companies) with the High Courts of Delhi and Karnataka under Sec 391 to 394 of the Companies Act, 1956, which is presently pending with the respective Courts. Under the scheme, with effect from the Appointed Date (i.e. 01.04.2001) the Transferor Companies will dissolve without winding up and merge with the Transferee Company. The name of the Transferee Company will be changed to Bharti Broadband Networks Ltd.

   Under the provisions of the scheme, with effect from the appointed date and upto the date the scheme comes into effect, the Transferor Companies shall be deemed to have been carrying on all operations and activities on behalf of the Transferee Co and stand possessed of the properties so to be transferred in trust for the Transferee Co. Also, all profits accruing to Transferor Companies (including taxes) or losses incurred shall be treated as profits or losses of the Transferee Co.

5. Keeping in view the available taxable profits to the Company in the future, on a conservative basis, the deferred tax asset has not been recognised in the accounts.

6. a) The employees of the company have been granted options vide an employee stock option plan for the employees of Bharti Televentures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited has allotted equity shares of Bharti Tele-ventures Limited to the Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

   The Company has advanced an amount of Rs.23 million to the ESOP Trust towards total cost of equity shares to be allotted to its employees at the price at which the shares have been issued to the trust.

   b) The expenditure on ESOP plan as presently ascertained has been recognised as an expense in these accounts as explained in Clause (8) on Note III above; the adjustment required therein due to the variation in the IPO issue price as compared to the pre-determined price as explained in para (a) above, which is presently not ascertainable will be made in the accounts for the subsequent year.

## APPENDIX : E

**BHARTI BROADBAND NETWORKS LIMITED ("BBNL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BBNL for the financial year ended March 31, 2001 and for the period April 1, 2001 to September 30, 2001, read with Note IV (5) and with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 |
|---|---|---|
| **INCOME** | | |
| Service Revenue | - | - |
| Advertisement Revenue | - | - |
| Other Income | 73 | - |
| **Total Income** | **73** | **-** |
| **EXPENDITURE** | | |
| Personnel | 9,559 | - |
| Administrative and Others | 2,080 | - |
| **Total Expenditure** | **11,639** | **-** |
| **Profit/(Loss) (EBITDA)** | **(11,566)** | **-** |
| Finance Expenses | 202 | - |
| **Profit/(Loss) before Depreciation** | **(11,768)** | **-** |
| Depreciation | 391 | - |
| Pre-operative expenditure charged off | (12,549) | - |
| **Net Profit/(Loss) before Tax** | **(24,708)** | **-** |
| Provision for Tax | - | - |
| **Net Profit/(Loss) as per audited Statement of accounts (A)** | (24,708) | **-** |
| **Adjustments** | **-** | - |
| Impact of material adjustments and prior period items. (Refer Note IV (1)) | 12,549 | (12,549) |
| **Total Adjustments (B)** | **-** | **-** |
| **Adjusted Profit (A+B)** | **(12,159)** | **(12,549)** |
| Carry Forward Profit/(Loss) from Previous Year | (12,549) | - |
| **Profit/(Loss) transferred to Balance Sheet** | **(24,708)** | **(12,549)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement

**(Director)** **(Director)**

bharti

**BHARTI BROADBAND NETWORKS LIMITED**

## II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED

Assets and Liabilities of BBNL as at the end of each financial year and at the end of six months period ended September 30, 2001, read Note IV (5) and with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 |
|---|---|---|
| **APPLICATION OF FUNDS** | | |
| **Fixed Assets** | | |
| Gross Block | 2,517 | 2,756 |
| Less: Depreciation | 688 | 341 |
| Net Block | 1,829 | 2,415 |
| **Total** | **1,829** | **2,415** |
| **Current Assets, Loans and Advances** | | |
| Cash & Bank Balances | 29 | 1,508 |
| Loans & Advances | 53,904 | 1,188 |
| **Total (A)** | **53,933** | **2,696** |
| **Current Liabilities and Provisions** | | |
| Sundry Creditors | 9,984 | 1,988 |
| Provisions | 140 | 230 |
| **Total (B)** | **10,124** | **2,218** |
| **Net Current Assets (A) - (B)** | **43,809** | **478** |
| **Miscellaneous Expenditure** (to the extent not written off or adjusted) | **6,559** | **-** |
| **Profit And Loss Account** | **24,708** | **12,549** |
| **TOTAL** | **76,905** | **15,442** |
| **SOURCES OF FUNDS** | | |
| **Loan Funds** | | |
| Unsecured Loans | 76,905 | 15,442 |
| **Share Capital & Reserves** | | |
| Share Capital | 0 | 0 |
| **Total** | **0** | **0** |
| **TOTAL** | **76,905** | **15,442** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI BROADBAND NETWORKS LIMITED**

**III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**1. FIXED ASSETS:**

Fixed Assets are stated at cost of acquisition and subsequent improvements thereto, including taxes, duties, freight and other incidental expenses related to acquisition and installation.

Capital Work in Progress is stated at cost.

**2. DEPRECIATION:**

Depreciation is provided on straight-line method to write off the cost of fixed assets over their estimated useful lives as below:

| Asset | Estimated Life |
|---|---|
| Computer | 3 |
| Office Equipment | 5 |
| Handset/ FWT | 3 |
| Furniture & Fixture | 5 |

**3. RETIREMENT BENEFITS**

The Company has provided for the liability on account of unavailed earned leave as per actuarial valuation.

**4. EMPLOYEE STOCK OPTION**

The aggregate amount of liability on account of Employee Stock Option Plan as ascertained at year end is being carried forward as Deferred Employee Compensation Benefit under Miscellaneous Expenditure to be written off on a straight line basis over the related vesting period of individual options.

**IV NOTES TO ACCOUNTS**

**1. Adjustments/ Regroupings**

**Impact of Prior Period Items**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 |
|---|---|---|---|
| **Profit / (Loss) as per audited statements of accounts** | **A** | **(24,708)** | - |
| **Adjustment on account of:** | | | |
| **Other Adjustments** | | 12,549 | (12,549) |
| Total | **B** | - | - |
| **Adjusted Profit/ (Loss)** | | | |
| **(A+B)** | | **(12,159)** | **(12,549)** |

**Notes:**

**Other Adjustments** - Other Adjustments consists of expenses incurred from the date of incorporation upto March 31, 2001 that had been carried forward as Pre-Operative Expenditure, pending allocation to fixed assets/deferred revenue expenditure have been charged off in the respective year for the reinstatement.

**2. Non-Adjustments/ Regroupings**

**a) Qualification in Auditors' Report relating to non-adjustment of ESOP expenditure for the year due to variation in the IPO issue price of shares as compared to the price at which shares have been allotted to the ESOP trust.**

The employees of the Company have been granted options vide an employee stock option plan for the employees of Bharti Tele-Ventures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited (BTVL) has allotted equity shares of BTVL to the Bharti Tele-Ventures Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

**3. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

**(Rs.'000)**

| Particulars | September 30, 2001 | March 31, 2001 |
|---|---|---|
| (a) Contingent Liabilities on account of | | |
| - Guarantees Issued by Banks | - | 20,000 |

4. The Company was incorporated in November 2000 and had applied for an ISP license but it has withdrawn the application in the current period. Also the Company has not yet obtained the Certificate of Commencement of Business. Accordingly, the expenses incurred from the date of incorporation upto March 31, 2001 that had been carried forward as Pre-Operative.

Expenditure, pending allocation to fixed assets/deferred revenue expenditure amounting to Rs. 12.55 million have been charged to the Profit & Loss account in the related years/period.

5. In June 2001 a scheme of amalgamation has been filed between Bharti BT Internet Ltd. (Transferee Company) and Bharti Telespatial Ltd., Bharti Broadband Networks Ltd. and Bharti BT Ltd. (Transferor Companies) with the High Courts of Delhi and Karnataka under Sec. 391 to 394 of the Companies Act, 1956, which is presently pending with the respective Courts. Under the scheme, with effect from the Appointed Date (i.e. 01.04.2001) the Transferor Companies will dissolve without winding up and merge with the Transferee Company. The name of the Transferee Company will be changed to Bharti Broadband Networks Ltd.

   Under the provisions of the scheme, with effect from the appointed date and upto the date the scheme comes into effect, the Transferor Companies shall be deemed to have been carrying on all operations and activities on behalf of the Transferee Co. and stand possessed of the properties so to be transferred in trust for the Transferee Co. Also, all profits accruing to Transferor Companies (including taxes) or losses incurred shall be treated as profits or losses of the Transferee Co.

   In view of the proposed amalgamation even though the net worth of the Company has been eroded, the accounts of the Company are being prepared on a going concern basis.

6. a) The employees of the company have been granted options vide. an employee stock option plan for the employees of Bharti Tele-Ventures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited has allotted equity shares of Bharti Tele-Ventures Limited to the Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

   b) The expenditure on ESOP plan as presently ascertained has been recognised as an expense in these accounts as explained in Clause 4 on Note III above; the adjustment required therein due to the variation in the IPO issue price as compared to the pre-determined price as explained in para (a) above, which is presently not ascertainable will be made in the accounts for the subsequent year.

# APPENDIX : F

**BHARTI AQUANET LIMITED ("BAQL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

BAQL has not commenced its commercial operation, accordingly no Profit & Loss Account has been drawn up.

**II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED**

Assets and Liabilities of BAQL as at the end of financial year ended March 31, 2001 and at the six months period ended September 30, 2001 read with significant accounting policies (Refer Annexure III below) and notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 |
|---|---|---|
| **APPLICATION OF FUNDS** | | |
| Capital Work In Progress (including capital advances) | 60,243 | 6,048 |
| **Total** | **60,243** | **6,048** |
| **Preoperative Expenditure** | **1,965** | **1,431** |
| **Current Assets, Loans and Advances** | | |
| Cash & Bank Balances | 22 | 23 |
| Loans & Advances | 410 | 50 |
| **Total** | **432** | **73** |
| Miscellaneous Expenditure (to the extent not written off or adjusted) | 360 | 360 |
| **TOTAL** | **63,000** | **7,912** |
| **SOURCES OF FUNDS** | | |
| **Loan Funds** | | |
| Unsecured Loans | 63,000 | 7,912 |
| **Total** | **63,000** | **7,912** |
| **Share Capital & Reserves** | | |
| Share Capital | 0 | 0 |
| **TOTAL** | **63,000** | **7,912** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI AQUANET LIMITED**

**III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**1. FIXED ASSETS:**

Fixed Assets are stated at cost of acquisition and subsequent improvements thereto, including taxes, duties, freight and other incidental expenses related to acquisition and installation.

Capital work in progress is stated at cost.

**2. MISCELLANEOUS EXPENDITURE:**

Preliminary expenses are carried forward to be amortised over the period 3 years from the date of commencement of commercial operations.

**IV NOTES TO ACCOUNTS**

**1 Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 |
|---|---|---|
| (a) Contingent Liabilities on account of<br>- Guarantees Issued by Banks | 20,000 | 20,000 |
| (b) Capital Commitments<br>Estimated amount of contracts, remaining to be executed on capital accounts (net of advances) | 125,500 | 164,290 |

## APPENDIX : G

**BHARTI TELESONIC LIMITED ("BTSoL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

BTSoL has not commenced its commercial operation, accordingly no Profit & Loss account has been drawn up.

**II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED**

Assets and Liabilities of BTSoL as at the end of financial year ended March 31, 2001 and at the six months period ended September 30, 2001 read with significant accounting policies (Refer Annexure III below), subject to non-adjustment of certain matters as stated in notes to accounts (Refer Annexure IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 |
|---|---|---|
| **APPLICATION OF FUNDS** | | |
| **Fixed Assets** | | |
| Gross Block | 11,616 | 5,649 |
| Less: Depreciation | 2,440 | 962 |
| Net Block | 9,176 | 4,687 |
| Capital Work In Progress | 3,468,706 | 594,228 |
| **Total** | **3,477,882** | **598,915** |
| **Pre-operative Expenditure pending allocation** | **175,541** | **70,273** |
| **Non-Trade Investments** | **73,459** | **155,867** |
| **Current Assets, Loans and Advances** | | |
| Cash & Bank Balances | 1,182 | 79,699 |
| Loans & Advances | 2,171,468 | 2,108,933 |
| **Total (A)** | **2,172,650** | **2,188,632** |
| **Current Liabilities and Provisions** | | |
| Sundry Creditors | 1,588,903 | 334,042 |
| Provisions | 1,534 | 1,220 |
| **Total (B)** | **1,590,437** | **335,262** |
| **Net Current Assets (A) - (B)** | **582,213** | **1,853,370** |
| Miscellaneous Expenditure (to the extent not written off or adjusted) | 12,727 | 111 |
| **TOTAL** | **4,321,822** | **2,678,536** |
| **SOURCES OF FUNDS** | | |
| **Loan Funds** | | |
| Unsecured Loans | 1,821,822 | 178,536 |
| **Total** | **1,821,822** | **178,536** |
| **Share Capital & Reserves** | | |
| Share Capital | 2,500,000 | 500,000 |
| Share Premium | | 2,000,000 |
| **Net worth** | **2,500,000** | **2,500,000** |
| **TOTAL** | **4,321,822** | **2,678,536** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI TELESONIC LIMITED**

**III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**1. FIXED ASSETS:**

Fixed Assets are stated at cost of acquisition and subsequent improvements thereto, including taxes, duties, freight and other incidental expenses related to acquisition and installation.

Capital work in progress is stated at cost.

**2. DEPRECIATION:**

Depreciation is provided on straight-line method to write off the cost of the fixed assets over their estimated useful lives. The estimated useful life have been taken as follows:

| | Years |
|---|---|
| Office Equipment | 3 |
| Computer | 3 |
| Optical Fibre Cables | 15 |
| Plant & Machinery | 5-15 |
| Furniture & Fixtures | 3 |
| Building | 20 |
| Vehicles | 4 |

Software up to the value of Rs. 0.10 million is written off in the year of purchase.

**3. RETIREMENT BENEFITS:**

The Company has provided the liability on account of unavailed leave and Gratuity as per the Actuarial Valuation.

**4. INVESTMENTS:**

Current Investments are valued at lower of cost and fair market value. Long term investments are carried at cost. Provision is made for diminution in value to recognise a decline, if any, other than of temporary nature.

**5. MISCELLANEOUS EXPENDITURE:**

Preliminary expenses are carried forward to be charged to Profit & Loss Account on commencement of commercial operations.

**6. TRANSLATION OF ITEMS IN FOREIGN CURRENCY:**

Transactions in Foreign Currency are recorded at the exchange rate prevailing at the date of the transaction. Monetary items are restated at year-end foreign exchange rates. Resultant exchange differences arising on payment or conversion of liabilities are recognised as Income or Expense in the year in which they arise except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed asset.

**7. EMPLOYEE STOCK OPTION**

The aggregate amount of liability on account of Employee Stock Option Plan as ascertained at year end is being carried forward as Deferred Employee Compensation Benefit under Miscellaneous Expenditure to be written off on a straight line basis over the related vesting period of individual options.

**IV NOTES TO ACCOUNTS**

**1. Non-Adjustments/ Regroupings**

**a) Qualification in the Auditors' Report relating to non-adjustment of ESOP expenditure for the year due to variation in the IPO issue price of shares as compared to the price at which shares have been allotted to the ESOP trust.**

The employees of the Company have been granted options vide an employee stock option plan for the employees of Bharti Tele-Ventures Limited and its subsidiaries on April1, 2001. Bharti Tele-Ventures has allotted equity shares to Bharti Tele-Ventures Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the Initial Public Offering (IPO) price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the Company, the amount of which is presently not ascertainable.

**2. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 |
|---|---|---|
| (a) Contingent Liabilities on account of | | |
| - Guarantees Issued by Banks | 360,850 | 135,380 |
| (b) Capital Commitments | | |
| Estimated amount of contracts, remaining to be executed on capital accounts (net of advances) | 1,225,800 | 2,040,400 |

3. The Company was incorporated in August 2000 and is registered as Infrastructure Provider Category – I (IP-I). The Company has applied for National Long Distance Services License in May 2001 and subsequent to the period end the Company has received the Licence to provide the services. Since the Company has not commenced commercial operations, the expenses incurred from the date of incorporation upto September 30, 2001 have been carried forward as Pre-Operative expenditure to be allocated to the Fixed Assets / Deferred Revenue Expenditure respectively in the related years of commencement of commercial operations.

4. a) The employees of the Company have been granted options vide an employee stock option plan for the employees of Bharti Televentures Limited and its subsidiaries on April 1, 2001. Bharti Tele-Ventures Limited has allotted equity shares of Bharti Tele-Ventures Limited to the Employees' Welfare Trust (ESOP Trust) on August 31, 2001 at a predetermined price to give effect to the scheme. The employees will be issued the shares at a discount of 50% of the IPO price and the differential of the IPO issue price and the issue price to the trust will be retained/borne by the respective operating companies/subsidiaries the amount of which is presently not ascertainable.

   The Company has advanced an amount of Rs.34 million to the ESOP Trust towards total cost of equity shares to be allotted to its employees at the price at which the shares have been issued to the trust.

   b) The expenditure on ESOP plan as presently ascertained has been recognised as an expense in these accounts as explained in Clause (7) on Note III above; the adjustment required therein due to the variation in the IPO issue price as compared to the pre-determined price as explained in para (a) above, which is presently not ascertainable will be made in the accounts for the subsequent year.

# APPENDIX : H

**SC CELLULAR HOLDINGS LIMITED ("SCHL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of SCHL for the five financial years ended March 31, 2001 and for the period April 1, 2001 to September 30, 2001 read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| **INCOME** | | | | | | |
| Other Income | - | 4 | 7 | 15 | 15 | - |
| **Total Income** | **-** | **4** | **7** | **15** | **15** | **-** |
| **EXPENDITURE** | | | | | | |
| Other Expenses | 511 | 227 | 16 | 50 | 10 | 32 |
| **Total Expenditure** | **511** | **227** | **16** | **50** | **10** | **32** |
| **Net Profit/(Loss) before Tax and amortisation** | **(511)** | **(223)** | **(9)** | **(35)** | **5** | **(32)** |
| Amortisations | - | - | 9 | - | - | - |
| **Net Profit/(Loss) before Tax** | **(511)** | **(223)** | **(18)** | **(35)** | **5** | **(32)** |
| Provision for Tax | - | | | | 1 | |
| **Net Profit/(Loss) as per audited statement of accounts (A)** | **(511)** | **(223)** | **(18)** | **(35)** | **4** | **(32)** |
| **Adjustments** | | | | | | |
| Impact of change in Accounting Policy (Refer Note IV) | - | - | 9 | - | - | - |
| **Total Adjustments (B)** | **-** | **-** | **9** | **-** | **-** | **-** |
| **Net Profit/(Loss) after adjustments (A) - (B)** | **(511)** | **(223)** | **(9)** | **(35)** | **4** | **(32)** |
| Carry Forward Profit/(Loss) from Previous Year | (311) | (88) | (79) | (44) | (48) | (16) |
| Profit/(Loss) transferred to Balance Sheet | **(822)** | **(311)** | **(88)** | **(79)** | **(44)** | **(48)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**SC CELLULAR HOLDINGS LIMITED**

**II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED**

Assets and Liabilities of SCHL as at the end of each financial year and at the end of six months period ended September 30, 2001 read with the significant accounting policies (Note - III) and after making groupings and adjustments (Note – IV (1) below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | | |
| **Investments:** | | | | | | |
| Long Term trade unquoted | 3,215,103 | 4,765,103 | 540,000 | 540,000 | 540,000 | 180,000 |
| **Total** | **3,215,103** | **4,765,103** | **540,000** | **540,000** | **540,000** | **180,000** |
| **Current Assets, Loans and Advances** | | | | | | |
| Cash & Bank Balances | 126 | 127 | 64 | 165 | 200 | 166 |
| Loans & Advances | 3,435 | 119,915 | 930,957 | 45,906 | 36,002 | 360,000 |
| Other Current Assets | - | - | - | - | 1 | |
| **Total (A)** | **3,561** | **120,042** | **931,021** | **46,071** | **36,203** | **360,166** |
| **Current Liabilities and Provisions** | | | | | | |
| Sundry Creditors | 21 | 1,550,016 | 19 | 7 | 5 | 5 |
| Provisions | 1 | 1 | 1 | 1 | - | - |
| **Total (B)** | **22** | **1,550,017** | **20** | **8** | **5** | **5** |
| **Net Current Assets (A) - (B)** | **3,539** | **(1,429,975)** | **931,001** | **46,063** | **36,198** | **360,161** |
| **Profit and Loss Account** | **822** | **311** | **88** | **79** | **44** | **48** |
| **TOTAL** | **3,219,464** | **3,335,439** | **1,471,089** | **586,142** | **576,242** | **540,209** |
| **SOURCES OF FUNDS** | | | | | | |
| **Loan Funds** | | | | | | |
| Unsecured Loans | 2,437,255 | 2,553,230 | - | - | - | - |
| **Total** | **2,437,255** | **2,553,230** | **-** | **-** | **-** | **-** |
| **Share Capital & Reserves** | | | | | | |
| Share Capital | 111,235 | 111,235 | 4,833 | 4,833 | 4,833 | 4,500 |
| Advance Share Application Money | - | - | 894,847 | 9,900 | - | - |
| Share Premium | 670,974 | 670,974 | 571,409 | 571,409 | 571,409 | 535,709 |
| **TOTAL** | **3,219,464** | **3,335,439** | **1,471,089** | **586,142** | **576,242** | **540,209** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**SC CELLULAR HOLDINGS LIMITED**

**III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

1. Long term investments are stated at cost. Provision for diminution, if any, in the value is made to recognise a decline, other than of temporary nature.
2. Dividends are accounted for when the right to receive the payment is established.
3. Preliminary expenses are charged to the accounts in the year of their incurrence.

**IV NOTES TO ACCOUNTS**

**1. Adjustments/ Regroupings**

**Impact of Change in Accounting Policies**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|---|
| Profit / (Loss) as per audited statements of accounts | A | (511) | (223) | (18) | (35) | 4 | (32) |
| Adjustment on account of Change in Accounting Policy : | | | | | | | |
| Preliminary Expenditure | B | - | - | 9 | - | - | - |
| **Adjusted Profit / (Loss)** | **(A) + (B)** | **(511)** | **(223)** | **(9)** | **(35)** | **4** | **(32)** |

**Notes:**

a) **Miscellaneous Expenditure -** Upto year ended March 31, 1999 SCHL had no policy of amortising preliminary expenditure. In 2000 the Company decided to charge preliminary expenses in the year the expenditure is incurred and accordingly charged off the entire amount in 1999-2000. However, for the purpose of these accounts the same is charged off in 1995-96 i.e. the year in which expenditure was incurred.

2. Vide agreement dated 05.09.2000 entered into with M/s. Infrastructure Development Finance Co. Ltd. (IDFCL), the Company has pledged 281 million equity shares of M/s Bharti Mobile Ltd. in favour of IDFCL as a security for M/s. Bharti Mobile Ltd. to enable IDFCL to subscribe to 200 secured redeemable non convertible debentures of Rs. 10 million each aggregating to Rs. 2,000 million of Bharti Mobile Limited.

3. Keeping in view the available taxable profits to the Company in the future, on a conservative basis, the deferred tax asset has not been recognised in the accounts.

# APPENDIX : I

**WELL DONE IMPEX (INDIA) LIMITED (“WDIL”)**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of WDIL for the five financial years ended March 31, 2001 and for the period April 1, 2001 to September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.’000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|---|
| **INCOME** | | | | | | | |
| Sale of Goods | | | 4,144 | 80,317 | - | - | - |
| Rental Income | | 1,350 | 2,700 | 2,700 | 2,700 | 675 | - |
| **Total** | | **1,350** | **6,844** | **83,017** | **2,700** | **675** | **-** |
| **EXPENDITURE** | | | | | | | |
| Other Expenses | | 450 | 4,844 | 80,674 | 4,120 | 242 | 26 |
| **Total** | | **450** | **4,844** | **80,674** | **4,120** | **242** | **26** |
| **Profit/(Loss) (EBITDA)** | | **900** | **2,000** | **2,343** | **(1420)** | **433** | **(26)** |
| Financial Expenses | | | 2 | 5 | - | - | - |
| Amortisation | | 1 | 2 | 2 | 2 | 2 | 1 |
| **Profit/(Loss) before Depreciation** | | **899** | **1,996** | **2,336** | **(1,422)** | **431** | **(27)** |
| Depreciation | | 108 | 230 | 240 | 238 | 279 | 280 |
| Net Profit/(Loss) before Tax | | 791 | 1,766 | 2,096 | (1,660) | 152 | (307) |
| Provision for Tax | | 300 | 4,372 | 555 | | 4195 | |
| **Net Profit/(Loss) as per audited statement of account** | **(A)** | **491** | **(2,606)** | **1,541** | **(1,660)** | **(4,043)** | **(307)** |
| **Adjustments :** | | | | | | | |
| Adjustment on account of prior period charge (Refer Note IV) | | - | 3,516 | (975) | (57) | 2,785 | (2,674) |
| **Total** | **(B)** | **-** | **3,516** | **(975)** | **(57)** | **2,785** | **(2,674)** |
| **Adjusted Profit / (Loss)** | **(A)+(B)** | **491** | **910** | **566** | **(1,717)** | **(1,258)** | **(2,981)** |
| Carry Forward Profit/(Loss) from Previous Year | | (7,074) | (7,984) | (8,550) | (6,833) | (5,575) | (2,594) |
| **Profit/(Loss) transferred to Balance Sheet** | **(A) + (B)** | **(6,583)** | **(7,074)** | **(7,984)** | **(8,550)** | **(6,833)** | **(5,575)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**WELL DONE IMPEX (INDIA) LIMITED**

**II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED**

Assets and Liabilities of WDIL as at the end of each financial year and at the end of six months period ended September 30, 2001 read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | | |
| **Fixed Assets** | | | | | | |
| Gross Block | 5,668 | 5,688 | 5,688 | 5,688 | 5,688 | 5,688 |
| Less: Depreciation | 1,373 | 1,265 | 1,036 | 797 | 545 | 279 |
| Net Block | 4,315 | 4,423 | 4,652 | 4,891 | 5,143 | 5,409 |
| **Total** | **4,315** | **4,423** | **4,652** | **4,891** | **5,143** | **5,409** |
| **Current Assets, Loans and Advances** | | | | | | |
| Inventories | 42 | 42 | 275 | - | - | - |
| Debtors | 924 | 924 | 4,984 | - | - | - |
| Cash & Bank Balances | 91 | 132 | 1,713 | 46 | 46 | 46 |
| Loans & Advances | 1,956 | 1,711 | 1,800 | 754 | 754 | 34,249 |
| Advance tax | 7,338 | 6,801 | 2,143 | 2015 | 1,760 | - |
| **Total (A)** | **10,351** | **9,610** | **10,915** | **2,815** | **2,560** | **34,295** |
| **Current Liabilities and Provisions** | | | | | | |
| Sundry Creditors | 31 | 31 | 84 | | | |
| Other Liabilities | 539 | 520 | 453 | 20 | 40 | 20 |
| Provisions | 7,341 | 7,041 | 5,938 | 4,075 | 6,906 | 5,268 |
| **Total (B)** | **7,911** | **7,592** | **6,475** | **4,095** | **6,946** | **5,288** |
| **Net Current Assets (A-B)** | **2,441** | **2,018** | **4,440** | **(1,280)** | **(4,386)** | **29,007** |
| **Preliminary Expenses** | **7** | **8** | **9** | **11** | **12** | **14** |
| **Profit and Loss Account** | **6,583** | **7,074** | **7,984** | **8,550** | **6,833** | **5,575** |
| **TOTAL** | **13,345** | **13,523** | **17,085** | **12,172** | **7,602** | **40,005** |
| **SOURCES OF FUNDS** | | | | | | |
| **Loan Funds** | | | | | | |
| Unsecured Loans | 12,590 | 12,768 | 16,330 | 11,417 | 6,847 | 39,250 |
| **Total** | **12,590** | **12,768** | **16,330** | **11,417** | **6,847** | **39,250** |
| **Share Capital & Reserves** | | | | | | |
| Share Capital | 155 | 155 | 155 | 155 | 155 | 155 |
| Share Premium | 600 | 600 | 600 | 600 | 600 | 600 |
| **TOTAL** | **13,345** | **13,523** | **17,085** | **12,172** | **7,602** | **40,005** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**WELL DONE IMPEX (INDIA) LIMITED**

**III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

1. The Company follows the mercantile system of accounting.
2. Fixed Assets are stated at cost of acquisition including taxes, duties, freight and other incidental expenses relating to acquisition. Depreciation is provided on Written Down Value at the rates specified in Schedule XIV to the Companies Act, 1956.
3. Preliminary expenses are amortised over the period of ten years.
4. Inventories are valued at lower of cost and Net Realisable Value.

**IV NOTES TO ACCOUNTS**

**1. Adjustments/ Regroupings**

**Impact of Prior period expenses**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|---|
| Loss as per audited statements of account | A | 491 | (2,606) | 1,541 | (1,660) | (4,043) | (307) |
| *Adjustment on account of:* | | | | | | | |
| Prior Period Item – Taxation | B | - | 3,516 | (975) | (57) | 2,785 | (2,674) |
| **Adjusted Loss** | **(A) + (B)** | **491** | **910** | **566** | **(1,717)** | **(1,258)** | **(2,981)** |

**Note:**

**a) Taxation of previous years** - WDIL had revised the income-tax returns in the year 2000-2001 and 1997-98 and had provided for additional liability on account of income-tax of the earlier years. These have been adjusted in the respective year for restatement.

**2. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| (a) Contingent Liabilities on account of | | | | | | |
| - Income Tax | 2,011 | 2,011 | 2,011 | - | - | - |

3. In absence of sales tax registration number, Sales Tax of Rs. 430,181 has not been deposited till March 31, 2001.
4. The Company's board has approved the proposal for merger of the Company with the holding Company M/s. Bharti Cellular Limited. The Company has filed application for merger in the Honorable Delhi High Court on 25th May 2001. The Order of the Court is still pending.

   Keeping in view the available taxable profits to the Company in the future, on a conservative basis the deferred tax asset has not been, recognised in the accounts.

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## APPENDIX : J

**BHARTI TELESPATIAL LIMITED ("BTSL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BTSL for the three financial years ended March 31, 2001 and for the period April 1, 2001 to September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 |
|---|---|---|---|---|
| **INCOME** | | | | |
| Sale of Securities | - | 14,107 | 212,403 | - |
| Interest on Bonds & Govt. Securities | - | - | 4,595 | - |
| **Total** | **-** | **14,107** | **216,998** | **-** |
| **EXPENDITURE** | | | | |
| Cost of Sales – Securities | - | 13,400 | 216,033 | - |
| Other Expenses | 43 | 35 | 650 | 39 |
| **Total** | **43** | **13,435** | **216,683** | **39** |
| **Profit/(Loss) (EBITDA)** | **(43)** | **672** | **315** | **(39)** |
| Financial Expenses | - | - | 193 | - |
| **Profit/(Loss) before Depreciation** | **(43)** | **672** | **122** | **(39)** |
| Depreciation | - | - | - | - |
| **Net Profit/(Loss) before Tax** | **(43)** | **672** | **122** | **(39)** |
| Provision for Tax | 307 | 239 | 40 | - |
| **Net Profit/(Loss) as audited statement of account (A)** | **(350)** | **433** | **82** | **(39)** |
| Adjustments | | | | |
| Adjustment on account of material adjustments and prior period items (Refer Note IV) | 307 | 169 | (476) | - |
| **Total Adjustments (B)** | **(307)** | **169** | **(476)** | **-** |
| **Adjusted Profit (A+B)** | **(43)** | **602** | **(394)** | **-** |
| Carry Forward Profit/(Loss) from Previous Year | 169 | (433) | (39) | - |
| **Profit/(Loss) transferred to Balance Sheet** | **126** | **169** | **(433)** | **(39)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

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BHARTI TELESPATIAL LIMITED

## II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED

Assets and Liabilities of BTSL as at the end of each financial year and the six months period ended September 30, 2001 read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 |
|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | |
| **Investments :** | | | | | |
| Long Term – Trade – Unquoted | | 1,444,537 | 786,671 | 287,475 | - |
| **Total** | | **1,444,537** | **786,671** | **287,475** | **-** |
| **Current Assets, Loans and Advances** | | | | | |
| Inventories | | - | | 6,400 | |
| Cash & Bank Balances | | 563 | 409 | 408 | 11 |
| Loans & Advances | | 4,447 | 3,174 | 3,174 | 210,142 |
| **Total** | **(A)** | **5,010** | **3,583** | **9,982** | **210,153** |
| **Current Liabilities and Provisions** | | | | | |
| Sundry Creditors | | 43 | 15 | 11,367 | 10 |
| Provisions | | 586 | 586 | 517 | - |
| **Total** | **(B)** | **629** | **601** | **11,884** | **10** |
| **Net Current Assets** | **(A-B)** | **4,381** | **2,982** | **(1,902)** | **210,143** |
| **Profit and Loss Account** | | **-** | | **433** | **39** |
| **TOTAL** | | **1,448,918** | **789,653** | **286,006** | **210,182** |
| **SOURCES OF FUNDS** | | | | | |
| **Loan Funds** | | | | | |
| Unsecured Loans | | 1,243,604 | 584,296 | 80,818 | - |
| **Total** | | **1,243,604** | **584,296** | **80,818** | **-** |
| **Share Capital & Reserves** | | | | | |
| Share Capital | | 11,765 | 11,765 | 10,000 | 1 |
| Advance Share Application Money | | - | - | 195,188 | 210,181 |
| Share Premium | | 193,423 | 193,423 | - | - |
| Reserve & Surplus | | 126 | 169 | - | - |
| **Net Worth** | | **205,314** | **205,357** | **205,188** | **210,182** |
| **TOTAL** | | **1,448,918** | **789,653** | **286,006** | **210,182** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

BHARTI TELESPATIAL LIMITED

## III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, in accordance with the generally accepted accounting principles and the provisions of Companies Act, 1956.

1. **INVESTMENTS**

   Long Term investments are valued at cost. Provision is made for diminution in value to recognise a decline, if any, other than of temporary nature.

2. **REVENUE RECOGNITION**

   Income on account of interest & other activities is recognized on accrual basis.

3. **PRELIMINARY EXPENSES**

   Preliminary expenses are charged to accounts in the year of their incurrance.

IV NOTES TO ACCOUNTS

1. Adjustments/ Regroupings

**Impact Prior period expenses**

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 |
|---|---|---|---|
| *Loss as per statements ofo accounts A* | ***(350)*** | ***433*** | ***82*** |
| *Adjustment on account of :* | | | |
| Prior period Item B | 307 | 169 | (476) |
| **Adjusted Loss (A) + (B)** | **(43)** | **602** | **(394)** |

**Note:**

a) **Taxation of previous years** - BTSL had revised the income-tax returns during the six months period ended September 30, 2001 and in the year 2000- 2001 and had provided for additional liability on account of income tax of the earlier year. The same has been adjusted in the relevant year for restatement.

2. Amount remaining unpaid on partly paid up shares of Bharti BT Ltd. as on March 31, 2001 – Rs.5,508,000.

3. The company has filed a scheme of amalgamation between Bharti BT Internet Limited (Transferee Co.) and Bharti Telespatial Limited, Bharti Broadband Networks Ltd. and Bharti BT Limited (Transferor Cos.) with the Honorable High Courts of Delhi and Karnataka under Section 391 to 394 of the Companies Act, 1956. Under the scheme, w.e.f. the appointed date (i.e. 1.04.2001) the transferor companies will dissolve without winding up and merge with the transferee company. The name of the transferee company will then be changed to Bharti Broadband Networks Limited. The scheme is presently pending approval of the Honorable Delhi High Court.

# APPENDIX : K

**BHARTI COMTEL LIMITED ("BCoL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BCoL for the six months period April 1, 2001 to September 30, 2001 read with significant accounting policies (Refer Note III below) after making groupings and adjustments as stated in notes to accounts (Refer Note IV below) are set out below:

(Rs. '000)

| Particulars | | September 30, 2001 |
|---|---|---|
| **INCOME** | | |
| License Fee | | 210 |
| Service Revenue | | 90 |
| Other Income | | 9 |
| **Total** | | **309** |
| **EXPENDITURE** | | |
| Personnel Expenses | | 64 |
| Administrative Expenditure & Others | | 227 |
| **Total** | | **291** |
| **Profit/(Loss) (EBITDA)** | | **18** |
| Finance Expenses | | 20 |
| Amortisation | | 1,734 |
| **Profit/(Loss) before Depreciation** | | **(1,736)** |
| Depreciation | | 2,632 |
| **Net Profit/(Loss) before Tax** | | **(4,368)** |
| Provision For Tax | | 945 |
| **Net Profit/(Loss) as per audited statement of account** | **(A)** | **(5,313)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI COMTEL LIMITED ("BCoL")**

**II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED**

Assets and Liabilities of BCoL as at the end of each financial year and at the end of six months period ended September 30, 2001 read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 |
|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | |
| **Fixed Assets** | | | | | |
| Gross Block | | 108,507 | 88,406 | 8,848 | - |
| Less: Depreciation | | 5,699 | 3,097 | 571 | - |
| **Net Block** | | **102,808** | **85,309** | **8,277** | **-** |
| Capital Work In Progress | | 147,325 | 115,610 | 48,779 | - |
| **Total** | | **250,133** | **200,919** | **57,056** | **-** |
| Preoperative expenditure pending allocation | | - | 35,916 | 15,323 | 2,628 |
| **Current Assets, Loans and Advances** | | | | | |
| Cash & Bank Balances | | 173 | 610 | 2,647 | 0 |
| Loans & Advances | | 162,408 | 190,355 | 50,046 | - |
| **Total** | **(A)** | **162,581** | **190,965** | **52,693** | **0** |
| **Current Liabilities and Provisions** | | | | | |
| Sundry Creditors | | 2,210 | 7,836 | 26,239 | - |
| Other Liabilities | | 60,588 | 318 | 2,925 | 15 |
| Provisions | | 1,228 | 282 | 283 | - |
| **Total** | **(B)** | **64,026** | **8,436** | **29,447** | **15** |
| **Net Current Assets** | **(A) - (B)** | **98,555** | **182,529** | **23,246** | **(15)** |
| **Preliminary Expenditure** | | **41** | **45** | **45** | **45** |
| **Miscellaneous Expenditure (To the extent not written off or adjusted)** | | **1,730** | **3,459** | **1,482** | **-** |
| Profit & Loss Account | | **5,313** | **-** | **-** | **-** |
| **TOTAL** | | **355,772** | **422,868** | **97,152** | **2,658** |
| **SOURCES OF FUNDS** | | | | | |
| **Loan Funds** | | | | | |
| Unsecured Loans | | 354,772 | 421,868 | 96,152 | 2,658 |
| **Share Capital & Reserves** | | | | | |
| Share Capital | | 1,000 | 1,000 | 1,000 | 0 |
| **TOTAL** | | **355,772** | **422,868** | **97,152** | **2,658** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI COMTEL LIMITED**

## III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, in accordance with the generally accepted accounting principles and the provisions of Companies Act, 1956.

### 1. FIXED ASSETS

Fixed assets are stated at their original cost including taxes and other incidental expenses related to acquisition and installation.

### 2. DEPRECIATION

Depreciation is provided on straight-line method to write off the cost of the fixed assets over their estimated useful lives, which have been taken as follows:

| Particulars | Life (Years) |
|---|---|
| Plant and Machinery | 10 |
| Air Conditioners | 10 |
| Vehicles | 10 |
| IT Equipment (including system software) | 3 |
| Office Equipments | 3 |
| Furniture and Fixture | 5 |

Depreciation on assets acquired/ sold/ discarded during the year is charged on *pro-rata* basis. Assets having value of Rs 5,000 or less are fully depreciated in the year of purchase itself.

### 3. MISCELLANEOUS EXPENDITURE

Preliminary expenses are to be written off over s period of 5 years beginning from the year of commencement of commercial operations.

Deferred Revenue Expenditure charged to the Profit and Loss account on commencement of commercial operations.

### 4. RETIREMENT BENEFITS

The Company has taken a group gratuity policy with LIC through M/s. Bharti Telecom Limited for future payment of gratuity payable to its employees.

## IV NOTES TO ACCOUNTS

### 1. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 |
|---|---|---|---|---|
| (a) Contingent Liabilities on account of | | | | |
| - Capital Commitment | 2,099 | 3,376 | 9,685 | - |
| - Bank Guarantees | 2,000 | - | - | - |

# APPENDIX : L

**BHARTI BT LIMITED ("BBTL")**

**I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED**

The profits/losses of BBTL for the five financial years ended March 31, 2001 and for the period April 1, 2001 to September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|---|
| **INCOME** | | | | | | | |
| Hardware Sales | | 72,949 | 221,295 | 84,642 | 155,491 | 81,351 | 54,946 |
| Service Revenue | | 111,801 | 203,152 | 155,706 | 101,078 | 46,856 | 33,470 |
| Other Income | | 929 | 7,109 | 6,699 | 6,454 | 39,593 | 195,043 |
| **Total** | | **185,679** | **431,556** | **247,047** | **263,023** | **167,800** | **283,459** |
| **EXPENDITURE** | | | | | | | |
| Material Consumption | | 70,778 | 210,739 | 78,210 | 154,933 | 77,347 | 45,249 |
| Employee costs | | 22,193 | 36,026 | 26,151 | 23,116 | 18,911 | 25,620 |
| Network Expenditure (Operations) | | 51,143 | 97,647 | 98,382 | 45,991 | 41,455 | 52,526 |
| Sales and Marketing Expenditure | | 1,856 | 8,115 | 10,688 | 10,194 | 8,595 | 43,033 |
| Other Administrative Expenses | | 18,478 | 35,000 | 26,489 | 29,823 | 35,781 | 57,484 |
| Prelimary Expenses charged off | | - | - | - | - | - | 3,594 |
| **Total** | | **164,448** | **387,527** | **239,920** | **264,057** | **182,089** | **227,506** |
| **Profit/(Loss) (EBITDA)** | | **21,231** | **44,029** | **7,127** | **(1,034)** | **(14,289)** | **55,953** |
| Financial Expenses | | 963 | 1,903 | 2,417 | 5,377 | 3,643 | 4,308 |
| **Profit/(Loss) before Depreciation** | | **20,268** | **42,126** | **4,710** | **(6,411)** | **(17,932)** | **51,645** |
| Depreciation | | 19,757 | 33,857 | 38,436 | 31,298 | 32,419 | 38,187 |
| **Net Profit/(Loss) before Tax** | | 511 | 8,269 | (33,726) | (37,709) | (50,351) | 13,458 |
| Provision For Tax | | - | - | - | - | - | - |
| **Net Profit/(Loss) as audited statement of account** | **(A)** | 511 | 8,269 | (33,726) | (37,709) | (50,351) | 13,458 |
| **Adjustments** | | - | - | - | - | - | - |
| Impact of material adjustments and prior period items. (Refer Note IV (1)) | | - | - | - | (2,842) | (24,818) | (34,951) |
| **Total Adjustments** | **(B)** | - | - | - | **(2,842)** | **(24,818)** | **(34,951)** |
| **Adjusted Profit** | **(A+B)** | **511** | **8,269** | **(33,726)** | **(40,551)** | **(75,169)** | **(21,493)** |
| Carry Forward Profit/(Loss) from Previous Year | | (167,325) | (175,594) | (141,868) | (101,317) | (26,148) | (4,655) |
| **Profit/(Loss) transferred to Balance Sheet** | | **(166,814)** | **(167,325)** | **(175,594)** | **(141,868)** | **(101,317)** | **(26,148)** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

## BHARTI BT LIMITED

## II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED

Assets and Liabilities of BBTL as at the end of each financial year and at the end of six months period ended September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments and subject to non adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|---|
| **APPLICATION OF FUNDS** | | | | | | | |
| **Fixed Assets** | | | | | | | |
| Gross Block | | 384,280 | 314,806 | 292,526 | 265,902 | 219,387 | 357,175 |
| Less: Depreciation | | 172,843 | 153,291 | 120,215 | 81,779 | 50,481 | 52,212 |
| Net Block | | 211,437 | 161,515 | 172,311 | 184,123 | 168,906 | 304,963 |
| Capital Work In Progress | | 1,269 | 16,666 | - | 7,360 | 14,142 | 7,909 |
| **Total** | | **212,706** | **178,181** | **172,311** | **191,483** | **183,048** | **312,872** |
| Long Term Trade Unquoted | | 7 | 7 | 7 | 7 | 7 | 7 |
| Short Term Non-Trade Unquoted | | - | - | - | 28,941 | - | - |
| **Current Assets, Loans and Advances** | | | | | | | |
| Cash and Bank Balances | | 11,263 | 38,074 | 33,471 | 32,837 | 98,547 | 7,013 |
| Accounts receivables | | 102,233 | 63,135 | 26,152 | 84,122 | 40,065 | 41,386 |
| Loans and Advances | | 73,433 | 31,149 | 25,741 | 21,949 | 23,391 | 41,458 |
| Inventories | | 54,567 | 52,965 | 66,819 | 70,221 | 45,001 | 37,589 |
| **Total** | **(A)** | **241,496** | **185,323** | **152,183** | **209,129** | **207,004** | **127,446** |
| **Current Liabilities and Provision** | | | | | | | |
| Sundry Creditors | | 134,375 | 88,845 | 65,523 | 133,729 | 111,952 | 119,837 |
| Provisions for staff benefit | | 671 | 689 | 296 | 58 | 29 | - |
| Other Provisions | | 5,430 | 6,900 | 1,203 | - | 1,645 | 1,542 |
| Advance Revenue | | 59,783 | 3,432 | 2,172 | 117,768 | 13,509 | 13,091 |
| **Total** | **(B)** | **200,259** | **99,866** | **69,194** | **151,555** | **127,135** | **134,470** |
| **Net Current Assets** | **(A-B)** | **41,237** | **85,457** | **82,989** | **57,574** | **79,869** | **(7,024)** |
| **Miscellaneous Expenditure** (to the extent not written off) | | 7,829 | - | - | - | - | - |
| **Profit & Loss Account** | | **166,814** | **167,325** | **175,594** | **141,868** | **101,317** | **26,148** |
| **TOTAL** | | **428,593** | **430,970** | **430,901** | **419,873** | **364,241** | **332,003** |
| **SOURCES OF FUNDS** | | | | | | | |
| **Loan Funds** | | | | | | | |
| Secured Loans | | 8,600 | 10,982 | 10,913 | 497 | 38,303 | 34,003 |
| Unsecured Loans | | - | - | - | - | - | 83,000 |
| **Total** | | **8,600** | **10,982** | **10,913** | **497** | **38,303** | **117,003** |
| **Share Capital & Reserves** | | | | | | | |
| Share Capital | | 300,617 | 300,612 | 300,612 | 180,000 | 180,000 | 180,000 |
| Advance Share Application Money | | - | - | - | 239,376 | 145,938 | 35,000 |
| Share Premium | | 119,376 | 119,376 | 119,376 | - | - | - |
| **Total** | | **419,993** | **419,988** | **419,988** | **419,376** | **325,938** | **215,000** |
| **TOTAL** | | **428,593** | **430,970** | **430,901** | **419,873** | **364,241** | **332,003** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

## BHARTI BT LIMITED

## III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

**Significant accounting policies:**

The accounts are prepared under the historical cost convention in accordance with the accounting standards issued by the Institute of Chartered Accountants of India and relevant presentational requirements of Companies Act, 1956. The significant accounting policies followed by the Company are as follows:

**i) Revenue recognition:**

Revenue from traded goods is recognised at the point of despatch of goods to customers based on their confirmed orders or when title is transferred on endorsement and delivery of shipping documents in case of high sea sales, installation charges is recognised as revenue on satisfactory completion of installation of VSATs/ gateways and service revenue is recognised from the date of satisfactory installation of equipment and software at the customer site.

**ii) Fixed assets and depreciation:**

Fixed assets are stated at cost which comprises purchase price, duties and any directly attributable cost of bringing the assets to their working condition for the intended use.

Depreciation is provided on a straight-line method in accordance with Schedule XIV to the Companies Act, 1956 on all assets except for items stated as under:

| Item | Depreciation rate as per Schedule XIV | Depreciation rate provided in the books |
|---|---|---|
| Computers | 16.21% | 24.00% |
| Office Equipment | 4,75% | 9.50% |
| Electrical Installations | 4.75% | 10.34% |
| Furniture and Fixture | 6.33% | 9.50% |

Leased assets are written off over the period of the primary lease.

**iii) Foreign currency transactions:**

Foreign currency transactions are accounted at exchange rates prevailing on the date of transaction.

Foreign currency liabilities (incurred for the acquisition of fixed assets) are translated at exchange rates prevailing on the last working day of the accounting year. The losses or gain arising out of the said translation is adjusted to the cost of fixed assets. Other foreign currency assets and liabilities are converted at exchange rates prevailing on the last working day of the accounting year and the net gain or loss arising out of such translation is adjusted to the Profit and Loss Account.

**iv) Inventories:**

Inventories are valued at lower of cost and net realisable value. Cost is determined on a weighted average basis. Loose tools are written off over a period of two years of purchase.

**v) Retirement benefits:**

Contributions to provident fund is made at predetermined rates and charged to the Profit and Loss Account. Contributions to gratuity, administered by the Life Insurance Corporation of India, is made at predetermined rates and charged to the Profit and loss account.

Provision for leave salary is made on an actuarial basis.

**vi) Warranty:**

Provision for warranty is based on past experience and technical estimates.

**vii) Employee Stock Option**

The aggregate amount of liability on account of Employee Stock Option Plan as ascertained at period end is being carried forward as Deferred Employee Compensation Benefit under “Miscellaneous Expenditure” to be written off on a *pro rata* basis over the maximum vesting period from the date of the grant of option to each of the employees.

## IV NOTES TO ACCOUNTS

### 1. Adjustments/ Regroupings

**Impact of Prior Period Items**

(Rs.'000)

| Particulars | | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|---|
| **Profit / (Loss) as per audited statements of accounts** | **A** | **511** | **8,269** | **(33,726)** | **(37,709)** | **(50,351)** | **13,458** |
| **Adjustment on account of:** | | | | | | | |
| Other Adjustments | | - | - | - | (2,842) | (24,818) | (34,951) |
| **Total** | **B** | **-** | **-** | **-** | **(2,842)** | **(24,818)** | **(34,951)** |
| **Adjusted Profit/ (Loss)** | **(A+B)** | **511** | **8,269** | **(33,726)** | **(40,551)** | **(75,169)** | **(21,493)** |

**Notes:**

a) **Other Adjustments -** Miscellaneous Adjustments consists of Income or expense arising in a year pertaining to prior years though not classifiable as prior period expenditure, as the event resulting in the expenditure occurred only during the year in which accounted for.

**2.** Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)

(Rs.'000)

| Particulars | September 30, 2001 | March 31, 2001 | March 31, 2000 | March 31, 1999 | March 31, 1998 | March 31,1997 |
|---|---|---|---|---|---|---|
| (a) Contingent Liabilities on account of | | | | | | |
| (I) Custom Duty | 2,782 | 2,782 | 2,782 | 2,782 | 2,782 | 2,663 |
| (II) Claims against Company not acknowledged as debts | 27,021 | 19,977 | 1,774 | 2,311 | - | - |
| (b) Capital Commitments | | | | | | |
| Estimated amount of contracts, remaining to be executed on capital accounts (net of advances) | 1,205 | 42,213 | 14,500 | 345 | 3,560 | 365 |

3 The employee of the Company have been granted Employee Stock Option Plan in Bharti Televentures Ltd. through Bharti Tele-Ventures Employees' Welfare Trust (ESOP Trust).

The eligible employees will be issued the shares at a discount of 50% of initial public offerings (IPO) price. The vesting period is between 1 to 4 years and certain percentage of entitlement vests at the end of each year. The entitlement is based on performance rating and is quantified as a percentage to the concerned employee cost to the Company. As employee is liable to pay 50% of value of shares to acquire the shares, the balance 50% payable by the Company to the said trust have been provided and amortized on a *pro-rata* basis over the maximum vesting period from the date of grant of option to each of the employees.

The Company has advanced Rs 34 million to Bharti Tele-Ventures Welfare Trust on this account of which Rs 9,029,465 has been adjusted for the above entitlement.

# APPENDIX : M

## BHARTI MOBINET LIMITED ("BMOL")

## I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED

The profits/losses of BMoL for the period April 1, 2001 to September 30,2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in notes to accounts (Refer Note IV below), are set out below:

| Particulars | | (Rs '000) September 30, 2001 |
|---|---|---|
| **INCOME** | | |
| Gross Billing Revenue | | 618,685 |
| Less: MTNL Access Charges | | 134,000 |
| **Net Billing Revenue** | | **484,685** |
| **EXPENDITURE** | | |
| Network Operating Expenses | | 64,829 |
| Employee Cost | | 34,098 |
| Sales & Marketing Expenses | | 118,412 |
| Administrative & Other Expenditure | | 57,614 |
| **Total Expenditure** | | **274,953** |
| **Profit/(Loss)(EBITDA)** | | **209,732** |
| Finance Expenses | | 81,958 |
| License Fee- Revenue share | | 54,128 |
| Entry Fee and other amortisation | | 6,358 |
| **Profit/(Loss) before Depreciation** | | **67,288** |
| Depreciation | | 116,184 |
| **Net Profit/(Loss) before tax** | | **(48,896)** |
| Provision for Tax | | - |
| Deferred Tax | | (28,625) |
| **Net Profit/(Loss) for the year** | | **(77,521)** |
| **Net Profit/(Loss) as per audited statement of account** | **(A)** | **(77,521)** |
| **Adjustments on account of:** | | |
| Impact of material adjustments and prior period items. (Refer Note IV (1)) | | 51,333 |
| Impact of qualifications in Auditors Report Note IV (1)) | | (2,524) |
| **Total** | **(B)** | **48,809** |
| **Adjusted Profit / (Loss)** | **(A) + (B)** | **(28,712)** |
| Carry Forward Profit/(Loss) from Previous Year | | (1,179,388) |
| Profit/(Loss) transferred to Balance Sheet | | (1,208,100) |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

bharti

**BHARTI MOBINET LIMITED**

## II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED

Assets and Liabilities of BMoL at the end of six months period ended September 30, 2001, read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in notes to accounts (Refer Note IV below), are set out below:

| Particulars | | September 30, 2001 |
|---|---|---|
| | | (Rs '000) |
| **APPLICATION OF FUNDS** | | |
| **Fixed Assets** | | |
| Gross Block | | 1,622,595 |
| Less : Depreciation | | 649,031 |
| Net Block | | 973,564 |
| Capital Work in Progress (including capital advances) | | 1,107 |
| **Total** | | **974,671** |
| Entry Fees (Unamortised) | | 167,469 |
| **Current Assets, Loans and Advances** | | |
| Inventories | | 5,348 |
| Sundry Debtors | | 131,889 |
| Cash and Bank Balances | | 46,742 |
| Loans and Advances | | 159,247 |
| **Total** | **(A)** | **343,226** |
| **Current Liabilities and Provisions** | | |
| Current Liabilities | | 709,728 |
| Provision for Staff Benefit | | 418 |
| **Total** | **(B)** | **710,146** |
| **Net Current Assets** | **(A-B)** | **(366,920)** |
| Deferred Tax Asset/(Liability) | | 262,595 |
| **Profit and Loss Account** | | 1,208,100 |
| **TOTAL** | | **2,245,915** |
| **SOURCES OF FUNDS** | | |
| **Loan Funds** | | |
| Secured Loans | | 824,075 |
| Unsecured Loans | | 662,069 |
| **Total** | | **1,486,144** |
| **Security Deposit** | | 137,571 |
| **Share Capital & Reserves** | | |
| Share Capital | | 622,200 |
| **Total** | | **622,200** |
| **TOTAL** | | **2,245,915** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI MOBINET LIMITED**

## III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

**Accounting Convention**

The financial statements are prepared in all material respects with applicable accounting principles in India, the Accounting Standards issued by the Institute of Chartered Accountants of India and the relevant provisions of the Companies Act, 1956 of India.

**Revenue recognition**

a. Sales are recognised on despatch to the customers.

b. Income from services is reported net of discounts given on such services and PSTN access charges.

c. Provision for doubtful debts is made for dues outstanding for more than 90 days in case of active subscribers and dues from customers who have been deactivated, other than those covered by security deposits or in specific cases where management is of the view that the amounts are recoverable.

**Inventories**

a. Stock in trade is valued at lower of cost on FIFO basis and estimated net realisable value.

**Fixed Assets**

a. Fixed Assets are stated at cost of acquisition including taxes, duties, freight and other incidental expenses related to acquisition and installation. Capital work-in-progress is stated at cost.

b. Depreciation is provided on straight line method to write-off the cost of the fixed assets over their remaining useful lives at the rates given below:

| Assets | Depreciation Rate |
|---|---|
| Plant and Machinery | 10% |
| Office Equipment. Furniture and Electrical Equipment | 20% |
| Computer | 33.33% |
| Vehicles | 20% |
| Building | 20% |
| Lease Hold Improvements | 12.5% |

Depreciation charge on additions is restricted to the period of use. All assets costing Rs. 5,000 or less are fully depreciated in the year of purchase. Software costing upto Rs 500 thousands are written off in the year of purchase.

**Foreign Currency Translations**

a. Transactions in foreign currency are recorded at the exchange rate prevailing on the date of transaction.

b. Foreign currency liabilities are restated at rates prevalent on the date of the Balance Sheet.

c. Exchange differences arising on repayment and / or restatement of liabilities relating to fixed assets are adjusted in the cost of respective assets. Other exchange differences are reckoned in the Profit and Loss Account.

**Licence Fees**

a. The fixed component of licence fee payable by the Company, upon migration to the National Telecom Policy (NTP 1999), i.e. Entry fee, has been capitalised as an asset. The entry fee so capitalised is being amortised equally over the period of the licence.

b. With effect from August 1, 1999 the variable licence fee computed provisional percentage of revenue share prescribed by the NTP 1999 is being charged off to the Profit and Loss Account in the year in which the related revenue arises. Revenue for this purpose comprises adjusted gross revenue as per the licence agreement of the licence area, to which the related licence agreement pertains.

**Retirement Benefits**

a. Contributions to Provident Fund are made to the Regional Provident Fund Commissioner and debited to Profit and Loss account.

b. Contributions to Superannuation and Gratuity Funds are made to Life Insurance Corporation of India (LIC) through the respective trusts based on amount specified by LIC and debited to Profit and Loss account.

c. Provision for Leave encashment is accounted on the basis of actuarial valuation.

**Miscellaneous Expenditure**

a. Miscellaneous Expenditure includes Deferred Revenue Expenditure and Entry Cost portion of Licence Fees.

b. Deferred Revenue Expenditure is amortised in the year of incurrence.

c. The licence fee for the period October 5, 1995 to July 31, 1999 is treated as entry cost and amortised equally over a period of 20 years commencing from November 30, 1994 being the date of original licence agreement.

**Taxation**

Tax Expense for the period, comprising current tax and deferred tax is included in determining the net profit / (loss) for the period.

However, in the year of transition, the accumulated deferred tax liability at the beginning of the year has been recognised with a corresponding charge to the Reserves in accordance with Accounting Standard 22 issued by the Institute of Chartered Accountants of India.

Deferred tax assets are recognised for all deductible timing differences and carried forward to the extent it is probable that future taxable profit will be available against which such deferred tax assets can be realised.

The Company provides for deferred tax charge using the liability method, based on the tax effect of timing differences resulting from the recognition of expense/ income in the financial statements viz its income tax treatment.

**BHARTI MOBINET LIMITED**

## IV NOTES TO ACCOUNTS

**1. Adjustments/Regroupings**

Impact of Change in Accounting Policies / Prior period Items/Qualifications in Auditors' Report

(Rs.'000)

| Particulars | | September 30, 2001 |
|---|---|---|
| **Profit / (Loss) as per audited Statements of accounts** | **A** | **(77,521)** |
| **Adjustment on account of:** | | |
| *Qualification in the Auditors' Report* | | (2,524) |
| *Material adjustments and prior period items:* | | |
| License Fee and WPC | | 15,427 |
| Other Adjustments | | 35,906 |
| **Total** | **B** | **48,809** |
| **Adjusted Profit/ (Loss)** | **(A+B)** | **28,712** |

**Notes:**

a. **Qualification in Auditors' Report relating to non-accrual of liability for cost of technical service provided –** In the above restatement, the liability as above has been provided for and the corresponding adjustments have been made in the carrying cost of fixed assets to the extent incidental to construction thereof, and the balance in opening balance of Profit & Loss Account and the Profit & Loss Account for the period including depreciation impact.

b. **Licence Fee and WPC –** During the year 2000-01 the regulatory authorities recommended a revision of license fees for cellular services at 12% of adjusted gross revenue and WPC fees at additional 2% of adjusted gross revenues. However in absence of final regulatory decisions intimation in this matter BMoL on a conservative basis continued to provide the WPC fees based on earlier DOT notifications and demand notes in this regard, and the license fees at 15% of adjusted gross revenues as in the earlier year.

During the six month period ended September 30, 2001, DoT issued amendments to the existing license agreements for CMTS, which has been accepted by the Company, resulting in the following changes:

i. Annual license fee @15% of Adjusted Gross Revenue (AGR) is payable with effect from August 1, 1999 to January 25, 2001 and @12% of AGR thereafter.

ii. WPC spectrum charges are payable for use of cellular spectrum upto 4.4 Mhz / 6.2 Mhz at the rate of 2%/ 3% respectively of AGR with effect from August 1, 1999, WPC microwave royalty being continued to charged as the the rules laid down by the DoT WPC wing as earlier.

iii. The CMTS operator is permitted to provide fixed phones based on existing GSM cellular network infrastructure in the licensed area.

Guidelines have been issued for issuance of license for basic services to provide the use of hand held set with wireless access system in the local area (WLL).

While the aforesaid amendments are subject to the ongoing litigation relating to the 1999 migration package and the WLL matter, in the Delhi High Court and TDSAT respectively, as the Company has unconditionally accepted and signed the revised license agreement, the revenue share license fee and WPC charges have been accounted for in line with the changes as above

Accordingly, the revenue share License Fee and WPC charges have been accounted for in line with the changes as above. The current year's expenditure has been charged to Profit and Loss Account and the earlier years expenditure has been charged to opening Profit and Loss Account.

c. **Other Adjustments-** Other Adjustments consists of income or expense arising in a year pertaining to prior years though not classifiable as prior period expenditure, as the event resulting in the expenditure occurred only during the year in which accounted for. The above adjustments are charged to opening Profit and Loss Account

d. **Deferred Tax-** The company has accounted for Deferred Tax Asset/Liability for current and earlier years in order to comply with the mandatory provisions of Accounting Standard-22 ' Taxes on Income' issued by the Chartered Accountants of India.

**2. Contingent Liabilities, Guarantees and Capital Commitments (unadjusted, as per audited accounts)**

(Rs.'000)

| Particulars | September 30, 2001 |
|---|---|
| (a) **Contingent Liabilities on account of** | |
| - Other claims against the Company not acknowledged as debts. | 16,418 |
| (b) Capital Commitments | |
| Estimated amount of contracts, remaining to be executed on capital accounts (net of advances) | 33,68 |

3. Bharti Tele-Ventures Limited (BTVL) had during the period, purchased 49% stake in the Company from Bell South International (Asia/ Pacific) Inc. (BSI) and Millicom International Cellular SA (MIC) taking the effective holding of the Company to 89.5%. DSS Enterprises Private Limited (DSS), the remaining 10.5% equity holder of BML had earlier in May 2000 agreed to sell its 10.5% holding to the BTVL which they reneged and BTVL filed a specific performance suit for acquiring the said stake has since been withdrawn. DSS has subsequently filed a case in the Delhi High Court seeking to enforce the sale of its shares to the Company for Rs. 620,000,000 which is pending with the Delhi High Court.

Subsequent to the period end, the Company has issued right shares, resulting in beneficial interest of the Company being increased to 94.5% and that of DSS to 5.5%

## APPENDIX : N

### BHARTI MOBITEL LIMITED ("BMoBL")

### I. SUMMARY OF PROFIT AND LOSS ACCOUNT (AS RESTATED)

The Profit and Loss Account of BMoBL for the six months ended 30th September 2001 prepared in accordance with SEBI Guidelines, read with Significant Accounting Policies (Refer Note III below) and after making groupings and adjustments and subject to non adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | | Sept 30, 2001 |
|---|---|---|
| **INCOME** | | |
| Gross Billing Revenue | | 462,234 |
| Less: DOT Access Charges | | 82,819 |
| **Net Billing Revenue** | | **379,415** |
| Sale of Traded Goods | | 1,031 |
| **Total** | | **380,446** |
| Other Income | | 1,139 |
| **Total Income** | | **381,585** |
| **EXPENDITURE** | | |
| Network Operating Expenses | | 56,630 |
| Cost of Sales of Traded Goods | | 1,024 |
| Employee Costs | | 36,798 |
| Sales & Marketing Expenses | | 89,067 |
| Administrative & Other Expenditure | | 76,804 |
| **Total Expenditure** | | **260,323** |
| **Profit/(Loss) (EBITDA)** | | **121,262** |
| Financial Expenses | | 26,296 |
| License Fee – Revenue share | | 47,404 |
| Entry Fee and other Amortization | | 8,516 |
| **Profit/(Loss) before Depreciation** | | **39,046** |
| Depreciation | | 91,816 |
| **Net Profit/(Loss) before tax** | | **(52,770)** |
| Deferred Tax Benefit (Asset) | | 18,800 |
| **Net Profit/(Loss) as per audited statement of accounts** | **(A)** | **(33,970)** |
| **Adjustments on account of:** | | |
| Impact of material adjustments and prior period items {Refer Note IV (I)} | | (6,001) |
| Impact of changes in accounting policies. {Refer Note IV (I)} | | (5,466) |
| **Total** | **(B)** | **(11,467)** |
| **Adjusted Profit / (Loss)** | **(A) + (B)** | **(45,437)** |
| Carry Forward Profit/(Loss) from Previous Year {Refer Note IV (II)} | | (864,973) |
| **Profit/(Loss) Carried to Balance Sheet** | | **(910,410)** |

The accompanying significant accounting policies (Note III) and Notes regarding regroupings and adjustments for audit qualifications and changes in accounting policies etc. (Note IV) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI MOBITEL LIMITED**

## II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED

The Assets and Liabilities of BML as at 30th September 2001 read with Significant Accounting Policies (Refer Note III below) and after making groupings and adjustments and subject to non-adjustment of certain matters as stated in notes to accounts (Refer Note IV below), are set out below:

(Rs.'000)

| Particulars | | As at Sept. 30, 2001 |
|---|---|---|
| **APPLICATION OF FUNDS** | | |
| **Fixed Assets** | | |
| Gross Block | | 1,467,666 |
| Less: Depreciation | | 527,882 |
| Net Block | | 939,784 |
| Capital Work in Progress (including capital advances) | | 60,170 |
| **Total** | | **999,954** |
| **Entry Fees (Unamortised)** | | **220,587** |
| **Current Assets, Loans and Advances** | | |
| Inventories | | 3,875 |
| Sundry Debtors | | 58,439 |
| Cash and Bank Balances | | 32,200 |
| Loans and Advances | | 44,818 |
| Advance tax/TDS Recoverable | | 810 |
| Other Current Assets | | 7 |
| **Total** | **(A)** | **140,149** |
| **Current Liabilities and Provisions** | | |
| Current Liabilities | | 540,555 |
| **Provisions** | | |
| Other Provisions | | 25 |
| **Total** | **(B)** | **540,580** |
| **Net Current Assets** | **(A-B)** | **(400,431)** |
| Deferred Tax Asset | | 289,626 |
| **Profit and Loss Account Debit Balance** | | 910,410 |
| **GRAND TOTAL** | | **2,020,146** |
| **SOURCES OF FUNDS** | | |
| Un**secured Loans** | | **626,848** |
| **Security Deposits** | | **63,298** |
| **Share Capital** | | **1,330,000** |
| **GRAND TOTAL** | | **2,020,146** |

The accompanying significant accounting policies (Note III) and Notes regarding regroupings and adjustments for audit qualifications and changes in accounting policies etc. (Note IV) are an integral part of this statement.

**(Director)** **(Director)**

**BHARTI MOBITEL LIMITED**

## III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

**(i) Basis of Accounting:**

The Company prepares its accounts on accrual basis, except otherwise stated, in accordance with the generally accepted accounting principles in India.

Revenue from sale of goods/services is recognized upon passage of title/rendering of services to the customers. Billing revenue includes net income from roaming services. Unbilled revenue is accrued on an estimated basis.

Revenue from Access charge is accounted for on the basis of bills raised on customers, while Access charge payable is accounted for on the basis of demands raised by Department of Telecommunication (DOT).

Insurance and other claims, to the extent considered recoverable, are accounted for in the year of claim. However, claims and refunds whose recovery cannot be ascertained with reasonable certainty, are accounted for on acceptance/actual receipt basis.

**(ii) Fixed Assets:**

Fixed Assets are stated at cost of acquisition and subsequent improvements thereto inclusive of duties, taxes, incidental expenses, erection/commissioning expenses etc. upto the date the asset is ready for commercial use.

**(iii) Borrowing Costs:**

Borrowing costs relating to the acquisition/construction of qualifying assets are capitalized until the time all substantial activities necessary to prepare the qualifying assets for their intended use are complete. A qualifying asset is one that necessarily takes substantial period of time to get ready for its intended use. All other borrowing costs are charged to revenue.

**(iv) Foreign Currency Transactions:**

Foreign Currency transactions are generally recorded on the basis of exchange rates, prevailing on the date of their occurrence.

Foreign Currency assets and liabilities (other than those covered by forward contracts) as on the Balance Sheet date, are revalued in the accounts on the basis of exchange rates prevailing at the close of the period and exchange difference arising therefrom, is adjusted to the cost of fixed assets or charged to the Profit & Loss Account, as the case may be.

In case of transactions covered by forward contracts, the difference between the contract rate and exchange rate prevailing on the date of transaction is adjusted to the cost of assets or recognized as income or expenses over the life of the contract, as the case may be.

**(v) Depreciation:**

Depreciation on fixed assets is provided on Straight Line Method based on their estimated useful lives as under:

| Asset Category | Years |
|---|---|
| Plant and Machinery | 10 |
| Buildings (Including owned office premises) | 20 |
| Office Equipment | 5 |
| Mobile Phones | 3 |
| Computers (including software) | 3 |
| Vehicles | 5 |
| Furniture and Fixtures | 5 |

The above rates are higher than the rates specified in Schedule XIV of the Companies Act, 1956.

The cost of Softwares upto Rs. 5. 00 Lacs each is written off in the year of purchase.

Impaired assets/assets held for disposal are written down to their salvage value.

Depreciation on the amounts capitalized towards foreign exchange fluctuations is provided prospectively over the residual life of the respective assets.

Depreciation on fixed assets added/disposed off is provided on *pro-rata* basis with reference to the date of addition/disposal.

**(vi) Inventories:**

Inventories are valued at lower of cost (computed on 'First In First Out' basis) or net realizable value.

**(vii) License Fee:**

The fixed component of license fee payable by the Company, upon migration to the National Telecom Policy (NTP 1999), i.e. Entry Fee is being proportionately amortized over the period of the license.

With effect from August 1999, the variable license fees paid/payable under 'Revenue Sharing Regime' is charged to Profit and Loss Account.

**(viii) Retirement Benefits:**

Gratuity and superannuation payments are charged to Profit & Loss Account on the basis of payments made to the respective Trust funds as advised by Life Insurance Corporation of India.

Leave payments to employees are accounted for on accrual basis.

**(ix) Provision for Doubtful Debts:**

In case of deactivated and suspended customers, provision is made immediately upon their deactivation/suspension, except to the extent of security deposits received from them. In respect of other debts, provision is made for all the dues outstanding for more than 90 days as on the Balance Sheet date.

**(x) Income Tax**

Tax expenses comprise both current and deferred taxes. Deferred tax liabilities are accounted for as and when these arise. Deferred Tax Assets are recognized only to the extent there is reasonable/virtual certainty that sufficient future taxable profits will be available against which such deferred tax assets can be realized. Deferred Tax assets and liabilities are measured using the tax rate and tax laws enacted or substantively enacted as on the Balance Sheet date.

**(xi) Contingencies:**

Liabilities which are material and whose future outcome cannot be ascertained with reasonable certainty are treated as contingent and disclosed by way of Notes to the Accounts.

## IV NOTES TO ACCOUNTS

### (1) Adjustments/ Regroupings

**Impact of Change in Accounting Policies/Prior period Items**

| | | (Rs.'000) |
|---|---|---|
| **Particulars** | | **Sept. 30, 2001** |
| **Profit / (Loss) as per Audited Statements of Accounts** | **A** | **(33,970)** |
| ***Changes in Accounting Policy:*** | | |
| Billing Revenue | **B** | (5,466) |
| ***Material Adjustments and Prior Period Items:*** | | |
| TRAI Refund to Customers | | 6,400 |
| Nokia TSA and Interest | | (18,519) |
| License Fees, WPC & Access Charges | | 6,118 |
| **Total** | **C** | **(6,001)** |
| **Adjusted Profit/ (Loss)** | **(A+B+C)** | **(45,437)** |

**Notes:**

**Billing Revenue -** The revenue from Prepaid Cards has been recognized at the point of sale instead of at the time of activation, as followed in the past upto 31st March 2001. In order to ensure consistent application of this accounting policy, the revenues for the year ended 31st March, 2001 have been adjusted and restated with corresponding impact on the Profit & Loss Account Debit Balances as on 31st March, 2001.

**TRAI Refund to Customers -** During the period ended 30th September, 2001, a sum of Rs. 64 lacs was provided towards amount excess recovered from the customers to be refunded to them in accordance with the TRAI Order. This entire amount pertains to the period prior to 31st March, 2001and has therefore, been adjusted in the Profit and Loss Account as stated above and corresponding debit has been given to the Profit & Loss Account Debit Balance as on 31st March, 2001.

**Nokia TSA and Interest -** The Company has not made provision for differential Technical Support Charges and Interest on outstanding dues payable to Nokia Telecommunications O.Y., Nokia Networks O.Y. and Nokia India Pvt. Ltd. amounting to Rs. 817.80 lacs, as the same are disputed and pending settlement. The liability pertaining to six months period ended 30th September, 2001 is Rs. 185.19 lacs which is being adjusted in the Profit and Loss Account, while the liability relating to earlier years Rs. 632.61 lacs has been adjusted in the Profit and Loss Account Debit Balance as on 31st March, 2001.

**License Fees, WPC & Access Charges:**

During the six months period ended 30th September 2001, the following changes have been made:

License Fees has been provided @ 12% of Adjusted Gross Revenue (AGR) with effect from 25th January, 2001 instead of 15% followed earlier.

WPC Charges has been provided @ 3% of AGR with effect from 1st August, 1999 instead of making provision as per DOT demand earlier.

5% of Access Charges payable to DOT for call generated from cellular to fixed service network has been retained as revenue effective from 25th January, 2001.

Consequent to above, additional net provision for earlier periods Rs. 61.18 lacs was made in the accounts for the period ended 30th September, 2001. This is being reversed in the Profit and Loss Account and corresponding debit is given to the Profit & Loss Account Debit Balance as on 31st March, 2001.

**(I1) Reconciliation of Profit & Loss Account Debit Balance as at 31st March, 2001**

| Particulars | | In Rs. '000 |
|---|---|---|
| **Profit & Loss Account Debit Balance as at 31st March, 2001** | | |
| **(as per Audited Accounts)** | **A** | **(1,065,486)** |
| ***Adjustment on account of:*** | | |
| Deferred Tax Benefit (Refer Note below) | **B** | **270,826** |
| ***Changes in Accounting Policy:*** | | |
| Billing Revenue | **C** | **5,466** |
| ***Material adjustments and prior period items:*** | | |
| TRAI Refund to Customers | | (6,400) |
| Nokia TSA and Interest | | (63,261) |
| License Fees/WPC/Access Charges | | (6,118) |
| **Total** | **D** | **(75,779)** |
| **Adjusted Profit & Loss Account Debit Balance as at 31st March, 2001** | **(A+B+C+D)** | **(864,973)** |

**Deferred Tax Benefit -** Deferred Tax Benefit of Rs. 2896.26 lacs as on 30th September, 2001 includes Rs. 2708.26 lacs pertaining to earlier years which is being adjusted against the Profit & Loss Account Debit Balance as on 31st March, 2001.

**(III) Non-Adjustments/Regroupings**

**a) Qualification in the Auditors' Report regarding accounting of License Fee and WPC provision and Access Fees in line with the expected amendments in the License Agreement.**

The Company has provided for License Fee, WPC and Access fee based on the license Agreement for the other metro cirles, the following changes have been considered during the period:

a) License Fees (revenue share) is provided @12% of "Adjusted Gross Revenue (AGR)" (instead of 15% as per the earlier recommandation) with effect from 25th January, 2001.

b) WPC charges for the cellular service spectrum has been provided @3% of "AGR" (instead of making the provision as per the demand raised by DoT) with effect from 1St August, 1999.

c) 5% of access charges payable to DoT from 25th January, 2001 onward for call generated from cellular network to fixed service network, has been retained by the Company as revenue.

Consequent to the above changes, loss for the period is lower by 3.82 million (net) which includes additional provision of 6.12 million for earlier years.The above has not been adjusted in the financial statements.

**b) Qualification in Auditors' Report regarding the change in Accounting Policy for revenue recognition of prepaid cards**

Unlike the previous year, the Company has recognised the revenue from prepaid cards at the point of sale instead at the time of their activation during the period April 1, 2001 to September 30, 2001.

Consequent to the above changes the loss for the period has decreased by Rs. 8.73 million. The above has not been adjusted in the financial statements.

**c) Qualification in Auditors' Report regarding recognition of deferred tax asset.**

Deferred Tax asset of Rs.2,899.66 million arising due to unabsorbed depreciation and other timing differences, has been recognised in the accounts as the management feels that there is reasonable certainty of claiming this benefit in due course. The above has not been adjusted in the financial statements.

**(IV) Statement of Contingent Liabilities and Commitments (As per audited accounts)**

| | | (Rs. '000)<br>**As at 30th September 2001** |
|---|---|---|
| **A** | Estimated amounts of contracts remaining to be executed on Capital Account and not provided for (net of advances). | 5,74,210 |
| **B** | Contingent Liabilities not provided for in respect of | |
| | 1. Outstanding Bank Guarantees | 64,152 |
| | 2. Sales Tax demands under appeal | 26,972 |
| | 3. Differential Customs Duty in respect of certain imports where against Provisional Duty Bonds have been issued | 17,182 |
| | 4. Interest on delayed payment of WPC charges and License Fees as per the Amended License Agreement | Amount Unascertainable |
| | 5. Other claims not acknowledged as debts. | 3,021 |

# APPENDIX : O

## J.D. PROJECTS PRIVATE LIMITED ("JDPL")

## I SUMMARY OF PROFIT AND LOSS ACCOUNT, AS RESTATED

The profits/losses of JDPL for the period ended September 30, 2001 read with significant accounting policies (Refer Note III below), after making groupings and adjustments as stated in Notes to Accounts (Refer Note IV below) are set out below:

(Rs.'000)

| Particulars | | September 30, 2001 |
|---|---|---|
| **INCOME** | | |
| Rentals | | 2,400 |
| **Total** | | **-** |
| Other Income | | - |
| **Total Income** | | **2,400** |
| **EXPENDITURE** | | |
| Employee Cost | | - |
| Administrative & Other Expenditure | | 65 |
| **Total Expenditure** | | **65** |
| **Profit/(Loss)(EBITDA)** | | **2,335** |
| Finance Expenses | | 70 |
| Amortisations | | 4 |
| **Profit/(Loss) before Depreciation** | | **2,261** |
| Depreciation | | 920 |
| **Net Profit/(Loss) before tax** | | **1,341** |
| Provision for Tax | | 1,016 |
| **Net Profit/(Loss) for the year** | | **325** |
| **Profit/(Loss) transferred to Balance Sheet** | | **325** |
| **Adjustment on account of:** | | |
| Impact of material adjustments and prior period items (Refer Note IV) | | 516 |
| **Total Adjustments** | **(B)** | **516** |
| **Adjusted Profit/Loss** | **(A)+(B)** | **841** |
| Carried Forward Profit/(loss) from the previous year | | 944 |
| **Profit/(Loss) transferred to Balance Sheet** | | **1,785** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

## J.D. PROJECTS PRIVATE LIMITED ("JDPL")

### II SUMMARY OF ASSETS AND LIABILITIES, AS RESTATED

Assets and Liabilities of JDPL for the six months period ended September 30, 2001 read with significant accounting policies (Refer Note III below) after making groupings and adjustments as stated in the Notes to Accounts (refer Note IV below), are set out below:

(Rs.'000)

| Particulars | | September 30, 2001 |
|---|---|---|
| **APPLICATION OF FUNDS** | | |
| **Fixed Assets** | | |
| Gross Block | | 44,604 |
| Less : Depreciation | | 1,220 |
| Net Block | | 43,384 |
| **Current Assets, Loans and Advances** | | |
| Cash and Bank Balances | | 146 |
| Advance tax/TDS Recoverable | | 1,131 |
| **Total** | **(A)** | **1,277** |
| **Current Liabilities and Provisions** | | |
| Current Liabilities | | 7,510 |
| Other Provisions | | 1,075 |
| **Total** | **(B)** | **8,585** |
| **Net Current Assets** | **(A-B)** | **(7,308)** |
| Miscellaneous Expenditure (To the extent not written off or adjusted) | | 63 |
| **TOTAL** | | **36,139** |
| **SOURCES OF FUNDS** | | |
| **Loan Funds** | | |
| Unsecured Loans | | 24,354 |
| **Total** | | **24,354** |
| **Share Capital & Reserves** | | |
| Share Capital | | 10,000 |
| Reserves & Surplus | | 1,785 |
| **Total** | | **11,785** |
| **TOTAL** | | **36,139** |

The accompanying significant accounting policies (Note - III below) and notes (Note – IV below) are an integral part of this statement.

**(Director)** **(Director)**

## J.D. PROJECTS PRIVATE LIMITED ("JDPL")

## III STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### 1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Financial statements have been prepared under the historical cost convention, in accordance with the generally accepted accounting principles and the provisions of the Companies Act, 1956 as adopted consistently by the Company.

### 2. FIXED ASSETS AND DEPRECIATION

Fixed Assets are stated at cost of acquisition including incidental expenses related to acquisition and installation. Depreciation on fixed assets has been provided on written down value in accordance with and at the rates prescribed in Schedule XIV to the Companies Act, 1956.

### 3. PRELIMINARY EXPENSES

Preliminary expenses are written off over a period of 10 years.

## IV NOTES TO ACCOUNTS

### 1. Adjustments/Regroupings

Impact of change in Accounting Policies/Prior Period Items/Qualification in Auditors' Report.

(Rs '000)

| Particulars | | September 30, 2001 |
|---|---|---|
| **Profit / (Loss) as per audited Statements of accounts** | A | 325 |
| **Adjustment on account of:** | | |
| Prior Period Items | **B** | 516 |
| **Adjusted Profit/ (Loss)** | **(A+B)** | **841** |

**Note :**

**a.** **Taxation of previous year-** The Company has revised the income tax returns in the current year for earlier years. This has been adjusted in the Carried Forward Profit from previous years.

# IAS CONSOLIDATED FINANCIAL STATEMENT

**Report of Independent Public Accountants**

To the Members of

**BHARTI TELE-VENTURES LIMITED:**

We have audited the accompanying consolidated balance sheets of BHARTI TELE-VENTURES LIMITED ('the Company') and its subsidiaries (collectively referred to as 'the Group') as at March 31, 2001 and 2000, and the consolidated statements of income, changes in equity and cash flows for the years ended March 31, 2001, 2000 and 1999 prepared in conformity with International Accounting Standards ('IAS'). These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BHARTI TELE-VENTURES LIMITED and its subsidiaries as of March 31, 2001 and 2000, and the results of their operations, changes in equity and cash flows for the years ended March 31, 2001, 2000 and 1999, in conformity with IAS.

As more fully discussed in Note 3(b) and Note 34(d) to the consolidated financial statements, the Group, subsequent to March 31, 2001, paid Rs 4,910 million to the Department of Telecommunications, for restoration of the Punjab licence, subject to determination of the final liability, which shall be ascertained through an arbitration process. The Group, based on a legal opinion, believes that the final liability would not exceed Rs 800 million and, accordingly, the same has been provided in these consolidated financial statements. The additional amount of Rs 4,110 million is considered recoverable by the Group and consequently has not been provided in these consolidated financial statements.

**(Director)** **(Director)**

New Delhi, India
October 17, 2001 *(except with respect* to the matter discussed in Note 41, as to which the *date is January 10, 2002)*

**Report of Independent Public Accountants**

To the Members of

**BHARTI TELE-VENTURES LIMITED:**

We have reviewed the accompanying unaudited consolidated balance sheet of the Company and its subsidiaries as of September 30, 2001 and the related consolidated statements of income, changes in equity and cash flows for the six-month period then ended, prepared in accordance with IAS. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these unaudited financial statements based on our review.

We conducted our review in accordance with the ISA applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review of financial statements consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying financial statements do not give a true and fair view of the financial position of the Company and its subsidiaries as of September 30, 2000, the results of their operations, changes in equity and their cash flows for the six-month period then ended, in conformity with IAS.

As more fully discussed in Note 3(b) and Note 34(d) to the consolidated financial statements, the Group, on September 20, 2001, paid Rs. 4,910 million to the Department of Telecommunications, for restoration of the Punjab licence, subject to determination of the final liability, which shall be ascertained through an arbitration process. The Group, based on a legal opinion, believes that the final liability would not exceed Rs 800 million and, accordingly, the same has been provided in these consolidated financial statements. The additional amount of Rs. 4,110 million is considered recoverable by the Group and consequently has not been provided in these consolidated financial statements.

Without qualifying our opinion we draw attention to Note 2 (a) to the financial statements. Since this is the first time that the Group has reported interim numbers, no comparatives are provided for the preceding year. The management believes it is impracticable to generate the financial results for the preceding year, as the necessary cut-offs were not obtained as of September 30, 2000 and for the six-month period then ended.

**(Director)** **(Director)**

New Delhi, India
January 10, 2002

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# BHARTI TELE-VENTURES LIMITED AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS
## AS AT SEPTEMBER 30, 2001, MARCH 31, 2001 AND MARCH 31, 2000

| | Note | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|---|
| | | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Unaudited)* |
| | 2(a) to (x) | Thousands of Indian Rupees | | | Thousands of US Dollars |
| **ASSETS** | | | | | |
| **Current assets** | | | | | |
| Cash and cash equivalents | 4 | 189,872 | 374,244 | 626,476 | 13,079 |
| Marketable securities | 5 | 2,902,393 | 5,624,159 | 1,889,897 | 39,455 |
| Accounts receivables, net | 6 | 611,576 | 1,042,484 | 1,426,957 | 29,790 |
| Inventories | | 7,250 | 22,565 | 75,552 | 1,577 |
| Other current assets | 7 | 233,815 | 903,840 | 5,270,329 | 110,027 |
| **Total current assets** | | **3,944,906** | **7,967,292** | **9,289,211** | **193,928** |
| **Non-current assets** | | | | | |
| Investment in joint ventures and associates | 8 | 150,257 | 1,290,384 | - | - |
| Property, plant and equipment, net | 9 | 6,451,933 | 10,827,972 | 13,313,457 | 277,943 |
| Capital work-in-progress | 9 | 1,737,457 | 2,664,573 | 5,930,710 | 123,814 |
| Goodwill | 10(a) | 3,724,987 | 12,014,299 | 26,041,473 | 543,663 |
| Licence entry fee | 10(b) | - | - | 6,906,701 | 144,191 |
| Deferred tax asset, net | 11 | 490,908 | 618,414 | 1,882,276 | 39,296 |
| Other non-current assets | 12 | 263,750 | 259,130 | 277,187 | 5,787 |
| **Total non-current assets** | | **12,819,292** | **27,674,772** | **54,351,804** | **1,134,694** |
| **Total assets** | | **16,764,198** | **35,642,064** | **63,641,015** | **1,328,622** |
| **LIABILITIES AND EQUITY** | | | | | |
| **Current liabilities** | | | | | |
| Short-term borrowings | 13 | 1,229,259 | 1,006,736 | 3,129,819 | 65,341 |
| Equipment supply payables | 14 | 1,528,996 | 2,902,609 | 3,593,097 | 75,012 |
| Revenues received in advance | | 129,415 | 235,867 | 487,517 | 10,177 |
| Current portion of long-term debts | 17 | 83,223 | 497,904 | 626,161 | 13,073 |
| Accrued employee cost | 15 | 61,738 | 135,773 | 125,628 | 2,623 |
| Other current liabilities | 16 | 1,985,816 | 2,480,290 | 2,705,895 | 56,491 |
| **Total current liabilities** | | **5,018,447** | **7,259,179** | **10,668,117** | **222,717** |
| **Non-current liabilities** | | | | | |
| Long-term debt, net of current portion | 17 | 7,118,861 | 7,209,906 | 9,893,251 | 206,540 |
| Employee benefit obligations | 15 | 6,367 | 9,037 | 14,334 | 299 |
| Non-interest bearing security deposits | 18 | 803,402 | 1,251,843 | 1,267,373 | 26,459 |
| **Total non-current liabilities** | | **7,928,630** | **8,470,786** | **11,174,958** | **233,298** |
| **Total liabilities** | | **12,947,077** | **15,729,965** | **21,843,075** | **456,015** |
| **Minority interests** | 19 | **(404,836)** | **956,665** | **258,137** | **5,388** |
| **Shareholders' equity** | | | | | |
| Share capital | 20 | 657,907 | 1,089,056 | 16,680,301 | 348,232 |
| Share premium | | 4,678,105 | 18,973,207 | 27,896,118 | 582,382 |
| Advance against equity | | - | 1,089,097 | - | - |
| Additional paid in capital | | 8,343 | 134,436 | - | - |
| Deferred stock compensation | | - | - | (248,179) | (5,181) |
| Loan to trust | | - | - | (534,632) | (11,162) |
| Retained earnings | | (1,122,398) | (2,330,362) | (2,253,805) | (47,052) |
| **Total shareholders' equity** | | **4,221,957** | **18,955,434** | **41,539,803** | **867,219** |
| **Total liabilities and shareholders' equity** | | **16,764,198** | **35,642,064** | **63,641,015** | **1,328,622** |

The accompanying notes to these balance sheets form an integral part of these consolidated financial statements.

Sunil B. Mittal
Chairman and Managing Director

Akhil Gupta
Joint Managing Director

New Delhi, India
January 10, 2002

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# BHARTI TELE-VENTURES LIMITED AND SUBSIDIARIES

## CONSOLIDATED INCOME STATEMENTS
## FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2001 AND YEARS ENDED MARCH 31, 2001, 2000 AND 1999

| | Notes | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|---|
| | | (Restated) | (Restated) | (Restated) | (Unaudited) | (Restated) | (Unaudited) |
| | 2(a) to (x) | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| **Revenues** | | | | | | | |
| Service revenues | 21 | 2,292,012 | 4,342,952 | 8,461,697 | 6,192,445 | 176,653 | 129,279 |
| Equipment sales | 22 | 156,720 | 138,268 | 19,670 | 55,114 | 411 | 1,151 |
| **Total revenues** | | **2,448,732** | **4,481,220** | **8,481,367** | **6,247,559** | **177,064** | **130,430** |
| *Proforma revenues ** | | *1,891,183* | *3,681,361* | *7,231,682* | *5,240,377* | *150,975* | *109,402* |
| **Operating expenses excluding license fees and pre-operating costs** | | | | | | | |
| Access and interconnection costs | 23 | 429,838 | 786,827 | 1,482,477 | 1,141,030 | 30,950 | 23,821 |
| Network operation costs | 24 | 238,104 | 504,116 | 959,871 | 690,562 | 20,039 | 14,416 |
| Equipment costs | 25 | 133,895 | 121,667 | 18,210 | 51,600 | 380 | 1,077 |
| Employee costs | 26 | 208,177 | 382,310 | 696,904 | 574,792 | 14,549 | 12,000 |
| Revenue refund to subscribers | 16(b) & 29 | - | - | 228,035 | 924 | 4,761 | 19 |
| Other operating costs | 27 | 700,849 | 1,013,115 | 2,248,266 | 1,431,740 | 46,937 | 29,889 |
| **Total operating expenses excluding licence fees and pre-operating costs** | | **1,710,863** | **2,808,035** | **5,633,763** | **3,890,648** | **117,616** | **81,222** |
| **Earnings before licence fee, pre-operating costs, depreciation and amortisation, interest and taxation** | | **737,869** | **1,673,185** | **2,847,604** | **2,356,911** | **59,448** | **49,208** |
| Licence fees | | (702,916) | (816,910) | (917,465) | (680,522) | (19,154) | (14,207) |
| **Earnings before, pre-operating costs, depreciation and amortisation, interest and taxation** | | **34,953** | **856,275** | **1,930,139** | **1,676,389** | **40,294** | **35,001** |
| Pre-operating costs | 2(u) & 30 | - | - | (102,768) | (219,563) | (2,144) | (4,585) |
| Depreciation and amortisation | 9 & 10(a) | (409,038) | (921,089) | (1,690,418) | (1,196,629) | (35,291) | (24,982) |
| **Operating income/(loss)** | | **(374,085)** | **(64,814)** | **136,953** | **260,197** | **2,859** | **5,434** |
| Loss of joint ventures and/ or associate | 8 | (23,029) | (113,523) | (304,925) | (42,979) | (6,366) | (897) |
| Finance costs, net | 28 | (169,469) | (632,678) | (958,748) | (58,830) | (20,016) | (1,228) |
| Non-operating income | | 4,953 | 13,999 | 24,695 | 22,241 | 516 | 464 |
| **Earnings before taxation** | | **(561,630)** | **(797,016)** | **(1,102,025)** | **180,629** | **(23,007)** | **3,773** |
| Income-tax income/(expense) | 11 | 105,467 | 80,278 | 45,551 | (156,311) | 951 | (3,265) |
| (Profit)/loss to minority shareholders | | 134,087 | 166,442 | (151,490) | **(182,770)** | **(3,162)** | (3,816) |
| **Net profit/(loss)** | | **(322,076)** | **(550,296)** | **(1,207,964)** | **(158,452)** | **(25,218)** | **(3,308)** |
| **Earnings Per Share Data:** | | | | | | | |
| Weighted average number of common shares (in thousands) | | 1,566,391 | 1,570,022 | 1,622,620 | 1,628,199 | 1,622,620 | 1,628,199 |
| Weighted average number of diluted shares (in thousands) | | 1,566,391 | 1,570,022 | 1,623,554 | 1,633,659 | 1,623,554 | 1,633,659 |
| Net profit/(loss) per common share (in Rs/US$) | | (0.21) | (0.35) | (0.74) | (0.10) | (0.016) | (0.002) |
| Net profit/(loss) per diluted share (in Rs/US$) | | (0.21) | (0.35) | (0.74) | (0.10) | (0.016) | (0.002) |

The accompanying notes to these income statements form an integral part of these consolidated financial statements.

** Proforma revenues are unaudited and computed as service revenues reduced by access and interconnection costs relating to originating calls from cellular networks paid to Bharat Sanchar Nigam Limited / Mahanagar Telephone Nigam Limited.*

Sunil B. Mittal
Chairman and Managing Director

Akhil Gupta
Joint Managing Director

New Delhi, India
January 10, 2002

## BHARTI TELE-VENTURES LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS FOR CHANGE IN EQUITY FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2001 AND YEARS ENDED MARCH 31, 2001, 2000 AND 1999

*(unless otherwise specified, all amounts are in thousands of rupees)*

| | No. of Shares | Share Capital | Advance Against Equity | Share Premium | Additional Paid-in Capital | Deferred stock | Loan to trust | Retained Earnings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Thousands of Indian Rupees | | | | |
| **Balance at March 31, 1998** Restated **[See Note (a) below]** | **1,566,390,970** | **500,000** | **-** | **1,468,702** | **-** | **-** | **-** | **(250,026)** | **1,718,676** |
| Net profit/(loss) for the year | - | - | - | - | - | - | - | (322,076) | (322,076) |
| **Balances at March 31, 1999** *Restated* [See Note (a) below] | **1,566,390,970** | **500,000** | **-** | **1,468,702** | **-** | **-** | **-** | **(572,102)** | **1,396,600** |
| Net profit/(loss) for the year | - | - | - | - | - | - | - | **(550,296)** | (550,296) |
| Equivalent share capital related to share capital of Bharti Telespatial Limited ('BTPL') [See note (b) & f(ii) below | 165,735 | 1,657 | - | - | 8,343 | - | - | - | 10,000 |
| Issue of share capital [See Note (c) below] | 15,625,022 | 156,250 | - | 3,209,403 | - | - | - | - | 3,365,653 |
| **Balances at March 31, 2000** Restated [See Note (a) below] | **1,582,181,727** | **657,907** | **-** | **4,678,105** | **8,343** | **-** | **-** | **(1,122,398)** | **4,221,957** |
| Net profit/(loss) for the year | - | - | - | - | - | - | - | (1,207,964) | **(1,207,964)** |
| Equivalent share capital related to share capital of BTPL [See note (b) & f(ii) below] | 2,504,949 | 25,049 | - | - | 126,093 | - | - | - | 151,142 |
| Issue of share capital [See Note (d) below] | 40,610,038 | 406,100 | - | 14,295,102 | - | - | - | - | 14,701,202 |
| Advance against equity [See Note (e) below] | - | - | 1,089,097 | - | - | - | - | - | 1,089,097 |
| **Balances at March 31, 2001** Restated [See Note (a) below] | **1,625,296,714** | **1,089,056** | **1,089,097** | **18,973,207** | **134,436** | **-** | **-** | **(2,330,362)** | **18,955,434** |
| Adjustment for recognition of financial assets/financial liabilities in accordance with IAS 39 [See Note (g) below] | - | - | - | - | - | - | - | 235,009 | 235,009 |
| Compensation related to employee stock options ('ESOP') grants [See Note (h) below] | - | - | - | -- | - | (278,968) | - | - | (278,968) |
| Amortisation of compensation related to ESOP grants [See Note (h) below] | - | - | - | - | - | 30,789 | - | - | 30,789 |
| Net profit/ (loss) for the six-month period ended September 30, 2001 | - | - | - | - | - | - | - | (158,452) | (158,452) |
| Issue of share capital [See Notes (a) and (f) below] | 42,733,353 | 427,335 | (1,089,097) | 24,086,821 | (134,436) | - | - | - | 23,290,623 |
| Loan to trust [See Note (h) below] | - | - | - | - | - | - | (534,632) | - | (534,632) |
| Issue of bonus shares [See Note (a) below] | - | 15,163,910 | - | (15,163,910) | - | - | - | - | - |
| **Balances at September 30, 2001** *Unaudited* | **1,668,030,067** | **16,680,301** | **-** | **27,896,118** | **-** | **(248,179)** | **(534,632)** | **(2,253,805)** | **41,539,803** |
| **Thousands of US Dollars** | | **348,232** | **-** | **582,382** | **-** | **(5,181)** | **(11,162)** | **(47,052)** | **867,219** |

**Notes:**

(a) On September 21, 2001, the Board of Directors of Bharti Tele-Ventures Limited ('BTVL' or 'the Company') recommended a bonus issue of 1,516,390,970 shares in the ratio of ten equity shares for every one equity share held on September 30, 2001, subject to the approval of the shareholders. The shareholders' approval has been obtained in the Annual General Meeting of the Company held on September 25, 2001. Accordingly, as per the guidance provided in IAS 33 (Earnings Per Share), the number of equity shares outstanding prior to the bonus issue have been restated to reflect the retroactive effect of the bonus issue from the beginning of the earliest period reported. Also, the loss per share has been retroactively adjusted taking cognisance of the enhanced equity base due to the bonus issue.

(b) The Company acquired 85 per cent equity share in BTPL in May 2001 from Bharti Telecom Limited ('BTL' or 'the Parent'). As BTPL and BTVL are under the common control of BTL, this re-organisation has been accounted for on the 'Uniting of Interest' method ('IAS-22'- Business Combinations) and the effect of this re-organisation has been reflected in all periods presented in these financial statements.

Further, the assets, liabilities, revenues and expenses of BTPL have been included in the respective captions for the years ended March 31, 2001, 2000 and 1999. The revised balances have been 'Restated' in these financial statements [See Note 3(h)]. Accordingly, based on the share exchange ratio between BTL and BTVL, in the respective years, the share capital of BTPL contributed by BTL has been reflected as equivalent share capital in BTVL and the balance has been reflected as 'Additional Paid-in Capital'.

(c) The Company made the following issues of equity shares during the year ended March 31, 2000:

(i) 2,777,778 equity shares of face value of Rs 10 each and 9,722,222 equity shares of face value of Rs 10 each, for cash consideration of Rs 599,368 and Rs 2,092,362 on September 20, 1999 and December 31, 1999, respectively, to an incoming minority shareholder.

(ii) On March 30, 2000, the Company issued 3,125,022 equity shares of face value of Rs 10 each, for a cash consideration of Rs 673,923, to the existing minority shareholder.

(d) The Company made the following issues of equity shares during the year ended March 31, 2001:

(i) On August 30, 2000, the Company issued 20,050,000 equity shares of face value of Rs 10 each to Bharti Telecom Limited ('BTL' or 'the Parent'), for an aggregate consideration of Rs 1,100,000.

(ii) On December 5, 2000, the Company issued 6,174,000 equity shares of face value of Rs 10 each, to certain erstwhile shareholders of Bharti Mobile Limited ('BML'- formerly known as JT Mobiles Limited), BTVL's subsidiary, for an aggregate consideration of Rs. 4,136,581, based on the fair value of equity shares issued [See Note 3(a)(iii) and 3(a)(iv)].

(iii) On December 5, 2000, the Company made a Rights Issue of 14,120,294 equity shares of face value of Rs 10 each to the existing shareholders at their shareholding percentage as of the date of the Rights Issue, for a cash consideration of Rs 9,460,597.

(iv) On March 20, 2001, the Company issued 265,744 equity shares of face value of Rs 10 each to the Parent, for a cash consideration of Rs 4,024.

(e) Advance against equity at March 31, 2001 comprise:

(i) Fair value of 934,256 equity shares of face value of Rs 10 each, issued on April 20, 2001, to an erstwhile shareholder in Bharti Cellular Limited ('BCL'), BTVL's subsidiary, [See Note 3(c)], and

(ii) Cash of Rs 463,145 received from the Parent, against which the shares have been subsequently issued by the Company.

(f) The Company made the following issues of equity share capital during the six-month period ended September 30, 2001

(i) On April 20, 2001, the Company issued 934,256 equity shares of face value of Rs 10 each to an erstwhile shareholder in BCL for an aggregate consideration of Rs 460,000 [See Note (e) above].

(ii) On May 1, 2001, the Company issued 2,670,684 equity shares of face value of Rs 10 each to the Parent in lieu of BTL transferring its 85 per cent equity share capital in BTPL, after adjusting for advances contributed by the Parent, for an aggregate consideration of Rs 286,300. The increased share capital has been reflected in the year ended March 31, 2000 to the extent of 165,735 equity shares and 2,504,909 equity shares in the year ended March 31, 2001. The related share premium to the extent already reflected in 'Additional Paid-in Capital' of Rs 134,436 at March 31, 2001 has been transferred to share premium in the six-month period ended September 30, 2001 [See Note (b) above].

(iii) On June 30, 2001, the Company allotted 21,159,165 fully paid equity shares of Rs 10 each, on a preferential basis, to existing shareholders, for cash at a premium of Rs 554 per share.

(iv) On August 16, 2001 and August 28, 2001, the Company allotted 18,333,332 and 616,600 fully paid equity shares of Rs 10 each respectively, to incoming minority shareholders and certain existing shareholders on a preferential basis, for cash, at a premium of approximately Rs 555 per share.

(v) On August 31, 2001 and September 28, 2001, the Company allotted 1,360,000 equity shares and 80,000 equity shares of Rs 10 each at a premium of Rs 555 per share to Bharti Tele-Ventures Employees' Welfare Trust ('the Trust'), to give effect to the employees' stock option plan.

(vi) On September 29, 2001, the Company made a 'Preferential Allotment' of 250,000 fully paid equity shares of Rs 10 each, at par to Mr Sunil B Mittal, the Chairman and Managing Director of the Company.

(g) As per the transitional provisions of IAS 39 – Financial Instruments: Recognition and Measurement, any adjustment of the carrying amount of financial assets and financial liabilities (non-interest bearing security deposits, employee advances and security deposits for rental agreements) have been remeasured on a amortised cost basis, using the effective interest method, as at April 1, 2001 and the effect of the recognition has been recognised as an adjustment to the opening balance of retained earnings for the six-month period ended September 30, 2001.

(h) The Company announced an ESOP scheme for the employees of the Group in February 2001 and formed the Trust for the implementation of this ESOP scheme. During the six-month period ended September 30, 2001, the Group has advanced Rs 813,600 to the Trust for it to acquire 1,440,000 equity shares (pre-bonus) from the Company. Such shares would be offered by the Trust to the employees who have received the grants from the Company at an exercise price, which would be 50 per cent of the IPO price, over the vesting period ranging from 42 to 48 months. The employees would pay the exercise price to the Trust, which in turn would pay to the extent of 50 per cent of the IPO price to the Group as a part of the repayment of the loan. The Group has granted ESOPs for Rs 557,938 to its employees as of September 30, 2001 and recognised 50 per cent of the grant value as deferred stock costs to be amortised over the vesting period. The net loan, after considering the gross deferred stock costs has been presented as a separate component of the equity and repayments of the loan by way of exercise of the options by employees would be applied towards this loan in the statement of equity. [See Note 2(q) and 15(c) to the financial statements]. The equity shares issued for the implementation of the ESOP scheme to the Trust have not been considered for the computation of basic EPS. For diluted EPS purposes, the equity shares granted by the Group under the ESOP scheme as at September 30, 2001 have been considered.

The accompanying notes to these statements of changes in equity form an integral part of these consolidated financial statements.

Sunil B. Mittal
Chairman and Managing Director

Akhil Gupta
Joint Managing Director

New Delhi, India
January 10, 2002

bharti

## BHARTI TELE-VENTURES LIMITED AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2001 AND YEARS ENDED MARCH 31, 2001, 2000 AND 1999

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Restated)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| **Cash flows from operating activities** | | | | | | |
| Net profit/ (loss) | (322,076) | (550,296) | (1,207,964) | (158,452) | (25,218) | (3,308) |
| Adjustments to reconcile net loss to net cash provided/ (used) by/ (in) -operating activities: | | | | | | |
| Depreciation and amortisation | 409,038 | 921,089 | 1,690,418 | 1,196,629 | 35,291 | 24,982 |
| Deferred tax expense/ (income) | (105,467) | (125,702) | (127,507) | 103,448 | (2,662) | 2,160 |
| (Gain)/ loss on sale of property, plant and equipment | (1,479) | 18,179 | (126) | 4,175 | (3) | 87 |
| Loss of associate | 23,029 | 113,523 | 304,925 | 42,979 | 6,366 | 897 |
| Interest income earned | (128,892) | (326,137) | (383,648) | (385,436) | (8,009) | (8,047) |
| Finance costs | 319,197 | 989,878 | 1,448,188 | 752,828 | 30,234 | 15,717 |
| (Gain)/ loss on sale of marketable securities | (20,836) | (31,063) | (105,792) | (308,563) | (2,209) | (6,442) |
| **Cash generated from operations before working capital changes** | **172,514** | **1,009,471** | **1,618,494** | **1,247,608** | **33,790** | **26,046** |
| (Increase)/ decrease in working capital [Note 35(a)] | 522,137 | (2,952,628) | (846,181) | (5,022,582) | (17,668) | (104,855) |
| (Increase)/ decrease in non-current assets | 249,591 | (194,041) | 23,032 | 9,977 | 481 | 208 |
| Increase/ (decrease) in non-interest bearing security deposits | 131,213 | 233,494 | 439,186 | (180,816) | 9,169 | (3,775) |
| Increase/ (decrease) in employee benefit obligations | (463) | 2,717 | 2,280 | 5,285 | 48 | 110 |
| Income-tax paid | (16,313) | (4,363) | (46,518) | (175,241) | (971) | (3,658) |
| **Net cash provided/(used) by/ in operating activities** | **1,058,679** | **(1,905,350)** | **1,190,293** | **(4,115,769)** | **24,849** | **(85,924)** |
| Cash flows from investing activities | | | | | | |
| Purchase of property, plant and equipment | (1,422,272) | (3,436,614) | (4,867,994) | (4,357,893) | (101,628) | (90,978) |
| Purchase of marketable securities | (4,327,680) | (9,396,110) | (17,398,001) | (29,070,879) | (363,215) | (606,908) |
| Proceeds from sale of marketable securities | 2,183,813 | 9,153,378 | 14,861,644 | 32,946,461 | 310,264 | 687,818 |
| Interest income received | 100,487 | 289,116 | 223,211 | 552,686 | 4,660 | 11,538 |
| Proceeds from sale of property, plant and equipment | 19,493 | 204,203 | 52,010 | 17,217 | 1,086 | 359 |
| Licence entry fees | - | - | - | (6,906,701) | - | (144,190) |
| Investment in associate [Note 8] | (210,142) | (76,668) | (1,445,052) | - | (30,168) | - |
| Acquisition of subsidiaries or additional equity, net of cash acquired [Note 35(b)] | - | (336,109) | (2,292,195) | (13,635,876) | (47,854) | (284,674) |
| **Net cash provided/ (used) by/ in investing activities** | **(3,656,301)** | **(3,598,804)** | **(10,866,377)** | **(20,454,985)** | **(226,855)** | **(427,035)** |

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | (Restated) | (Unaudited) |
| | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| **Cash flows from financing activities** | | | | | | |
| Increase/ (decrease) in short-term borrowings | (51,554) | 1,190,556 | (91,175) | 543,962 | (1,903) | 11,355 |
| Proceeds from long-term debt | 2,419,228 | 2,324,620 | 2,755,781 | 2,535,258 | 57,532 | 52,928 |
| Repayment of long-term debt | (37,000) | (2,000) | (2,250,055) | (199,128) | (46,974) | (4,157) |
| Minority interest, net of losses absorbed | 444,334 | (208,717) | 97,620 | 87,842 | 2,038 | 1,834 |
| Advance against equity | 183,511 | (210,181) | 463,145 | - | 9,669 | - |
| Proceeds from issuance of common shares (inclusive of share premium) | - | 3,375,653 | 10,287,870 | 22,507,812 | 214,778 | 469,892 |
| Interest paid | (364,952) | (941,461) | (1,402,730) | (652,760) | (29,285) | (13,627) |
| **Net cash provided/ (used) by/ in financing activities** | **2,593,567** | **5,528,470** | **9,860,456** | **24,822,986** | **205,855** | **518,225** |
| Cash and cash equivalents, | | | | | | |
| Beginning of the year * | 169,611 | 165,556 | 189,872 | 374,244 | 3,964 | 7,813 |
| End of the year * | 165,556 | 189,872 | 374,244 | 626,476 | 7,813 | 13,079 |
| **NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS** | **(4,055)** | **24,316** | **184,372** | **252,232** | **3,849** | **5,266** |

The accompanying notes to these cash flow statements form an integral part of these consolidated financial statements.

** Includes restricted cash balance of Rs 79,046 as at September 30, 2001 (March 31, 2001 - Rs 6,765, March 31, 2000 - Rs 9,331 and March 31, 1999 - Rs 3,735).*

Sunil B. Mittal
Chairman and Managing Director

Akhil Gupta
Joint Managing Director

New Delhi, India
January 10, 2002

# BHARTI TELE-VENTURES LIMITED AND SUBSIDIARIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## AS OF SEPTEMBER 30, 2001, MARCH 31, 2001 AND 2000 AND FOR THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2001 AND THE YEARS ENDED MARCH 31, 2001, 2000 AND 1999

(Unless otherwise specified, all amounts are stated in thousands of Indian Rupees)

### 1. BACKGROUND

a) *Incorporation and history -*

Bharti Tele-Ventures Limited ('BTVL' or 'the Company') was incorporated under the laws of India on July 7, 1995 as a special purpose vehicle to hold equity interests in diversified telecom service projects. The Company was formed as a 80:20 joint venture between the Bharti Group through its subsidiary Bharti Telecom Limited ('BTL' or 'the Parent'), and STET International Netherlands NV ('STET'), a company promoted by Telecom Italia, Italy. BTVL together with its subsidiaries hereinafter referred to as 'the Group'. The Group is a leading provider of telecom services in India.

During the year ended March 31, 2000, Brentwood Investment Holdings Limited, a company promoted by Warburg Pincus LLC, a leading global private equity investment firm, entered the Group. Further, during the year ended March 31, 2001, STET exited the Group and Singapore Telecom International Pte Limited ('SingTel'), a company incorporated under the laws of Singapore, entered the Group as a significant shareholder.

The Company has its registered office at H-5/12, Qutab Ambience (at Qutab Minar), Mehrauli Road, New Delhi, India.

b) *Industry overview and licencing structure -*

The initial liberalisation process of the telecommunications sector in India saw the opening of Cellular Mobile Telephony Services ('CMTS' or 'cellular') and fixed line telephony services (hereinafter referred to as 'access services'), with the bidding process commencing in December 1991. The licences for CMTS were awarded on a non-exclusive basis in 1994, for each of the four metropolitan cities (Delhi, Mumbai, Chennai and Kolkata). The service areas were segregated into metropolitan cities and circles (typically, the geographical extent of the states). Two private operators were granted licences to operate CMTS in each service area, whereas only one private operator was granted the licence to operate access services in each service area. All licences were granted at a fixed annual licence fee and were valid for an initial period of 10 years (CMTS licences) and 15 years (access service licences), the regime is collectively referred to herein as the 'old licence fee regime'.

Within one to two years of operations, the private operators became aware of the high licence fee commitments in relation to the market response and consequently, most projects were under severe funding pressures.

As a revival package for the entire telecommunications industry, the Government of India ('GoI'), on July 6, 1999, approved the applicability of the New Telecom Policy, 1999 ('NTP') to the existing cellular and access service operators from August 1, 1999, which provides for a one time entry licence fee to be paid by the operators, along with the future licence fees on a revenue sharing arrangement from August 1, 1999. The revenue-share percentage had been provisionally fixed by the GoI at 15 per cent of the service revenues, pending final determination by the Department of Telecommunications ('DoT'), based on the recommendation of the Telecom Regulatory Authority of India ('TRAI'). Also, the licence period was extended from the existing 10 years (for cellular services) and 15 years (for access services) to 20 years.

In case of existing cellular and access service operators, licence fees dues payable upto July 31, 1999, under the old licence fee regime, as adjusted for the notional extension of the effective date of the original licences by six-months (only for celluer licences), are deemed to be the one time licence entry fees.

The migration to NTP offered by the DoT was subject to the acceptance by the private operators of certain terms and conditions, including payment of all licence fee dues and withdrawal of all disputes under the original licence agreement. The Group has provided its unconditional acceptance of the terms and conditions for migrating to the NTP. Further, the Group believes that they have complied with all the terms and conditions for the migration.

Subsequently, the GoI introduced unlimited competition in access services, and allowed the DoT and Mahanagar Telephone Nigam Limited ('MTNL') (for metropolitan areas of Delhi and Mumbai) as the third CMTS operator and on January 5, 2001, the GoI announced guidelines for awarding the fourth licence for providing CMTS in the metropolitan cities and state circle service areas of India. The licences would be granted on a non-exclusive basis for a period of 20 years, further extendable by 10 years. The guidelines prohibit the existing licencees from bidding for the same service area in which they are currently operational. The DoT has granted the related Letters of Intent ('LoI') to the selected bidders.

Also, in January 2001, the GoI, based on TRAI's recommendations, made the following new policy announcements:

- Permission to access service operators to provide 'Limited Mobility Services' within the 'Short Distance Charging Areas' through the Wireless in Local Loop platform ('WiLL');
- Decrease in the revenue-share percentage of CMTS licence fee from the provisional 15 per cent of revenues to 12, 10 and 8 per cent for 'A', 'B' and 'C' category circles. The Group's Delhi, Kolkatta, Chennai, Karnataka and Andhra Pradesh, operational circles, are in the 'A' category and Himachal Pradesh is in the 'C' category;
- Decrease in the revenue-share percentage of access services licence fee from the provisional 15 per cent to 12, 10 and 8 per cent for 'A', 'B' and 'C' category circles. The Group's Madhya Pradesh Circle is in the 'B' Category.

- Permission to CMTS operators to retain 5 per cent of the revenues from long distance operations till the finalisation of the revenue sharing percentage for long distance telephony by the TRAI.

These recommendations are currently being contested by the Cellular Operators Association of India on behalf of the CMTS operators and the matter has been referred to the Telecom Dispute Settlement Appellate Tribunal in India.

However, the Group, during the year ended March 31, 2001, in line with the Indian telecom industry view, has revised the revenue-share percentage for its access operations in Madhya Pradesh to 10 per cent, retrospectively from August 1, 1999. Further, as recommended in the amended CMTS licence agreement of September 25, 2001, the Group has revised the revenue-share percentages, with effect from January 25, 2001, for its CMTS operations in 'A' category circles to 12 per cent and for its 'C' category circles to 8 per cent, of the Adjusted Gross Revenue ('AGR') in the year ended March 31, 2001. AGR has been defined as total income including service revenues, finance income and non-operating income, reduced by access and interconnection costs, service tax and/or sales tax, if applicable.

In addition, after seeking clarification from the DoT, the Group has recognised the 5 per cent revenue share on inter-connection charges paid/payable to Bharat Sanchar Nigam Limited ('BSNL')/Mahanagar Telephone Nigam Limited ('MTNL') with effect from January 25, 2001, during the six-month period ended September 30, 2001.

As a part of the fourth licence bidding, on September 28, 2001, Bharti Cellular Limited ('BCL') has signed licence agreements with the DoT for providing CMTS in the states of Tamil Nadu, Maharashtra, Kerela, Haryana, Madhya Pradesh, Uttar Pradesh (West) and Gujarat and the metropolitan city of Mumbai as the fourth operator for a total licence fees of Rs 6,907 million [See Note 10(b)]. In addition, subsequent to September 30, 2001, BTNL has signed licences agreements to operate access services in Tamil Nadu (including Chennai), Haryana, Delhi and Karnataka [See Note 39(b)]. The eight CMTS licences and the four licences for access services are hereinafter referred to as the 'new licences'.

c) *BTVL's operations* -

BTVL has/had a controlling/significant interest in the following entities during the three year period ended March 31, 2001 and six-month period ended September 30, 2001.

(i) BCL, incorporated on March 20, 1992 under the laws of India, acquired its wholly owned subsidiary, Welldone Impex (India) Limited ('Welldone'), in December 1997. BCL provides CMTS in the metropolitan city of Delhi, India. The Company held 51 per cent equity interest in BCL upto March 31, 2000, which was increased to 56 per cent as of March 31, 2001 and 100 per cent as of September 30, 2001 [See Note 3(c)].

(ii) Bharti Telenet Limited ('BTNL'), incorporated on November 8, 1993 under the laws of India, provides CMTS in the state of Himachal Pradesh, India and access services in the state of Madhya Pradesh, India. The Company held 51 per cent equity of BTNL upto March 31, 2000, which was increased to 100 per cent as of March 31, 2001 [See Note 3(d)]. BTNL remained a fully owned subsidiary of BTVL at September 30, 2001.

(iii) Bharti Mobile Limited ('BML') [See Note 3(a)], incorporated on March 21, 1995 under the laws of India, provides CMTS in the Indian states of Andhra Pradesh and Karnataka. BTVL held an effective interest of 32.36 per cent in BML at March 31, 2000 (through investments made in SC Cellular Holdings Limited ('SCHL'), an investment company) and increased its effective interest to 74 per cent in October 2000. As at September 30, 2001, the balance equity of 26 per cent in BML was held by Telia A.B. ('Telia'), a company incorporated under the laws of Sweden (hereinafter referred to as 'Minority Shareholder of BML').

(iv) Bharti Telesonic Limited ('BTSL') was incorporated on July 27, 2000, under the laws of India, to provide National Long Distance Services in India, as a wholly owned subsidiary of BTVL. BTVL transferred 10 per cent of its holding in BTSL to a subsidiary of SingTel on March 12, 2001. BTSL has commenced provision of data services in December 2001 and expects to commence provision of voice services in January 2002.

(v) SkyCell Communications Limited ('SkyCell'), incorporated on March 3, 1992, under the laws of India, provides CMTS in the metropolitan city of Chennai since October 1995. The Company acquired 40.5 per cent equity of SkyCell held by Crompton Greaves Limited ('Crompton') on August 7, 2000. The other shareholders of SkyCell as at March 31, 2001 were DSS Enterprises Private Limited ('DSS') (10.5 per cent), BellSouth International Asia Pacific Inc ('BellSouth') (24.5 per cent), and Millicom International Cellular SA ('Millicom') (24.5 per cent). In September 2001, the Company acquired Bellsouth's and Millicom's share aggregating to 49 per cent, resulting into a total equity interest of 89.5 per cent at September 30, 2001.

(vi) Bharti Aquanet Limited ('BAL') was incorporated on October 3, 2000, as a wholly owned subsidiary of BTVL, under the laws of India, to build, operate and maintain cable landing station for the fibre optic submarine cable system linking India and Singapore. Through an agreement dated January 18, 2001, SingTel i2i Private Limited ('i2i') has agreed to hold 49 per cent equity interest in BAL. However, no investments have been made by i2i upto September 30, 2001. On September 29, 2001, BTVL has transferred its equity holdings in BAL in favour of BTSL. BAL expects to commence commercial operations by the middle of 2002.

(vii) Bharti Telespatial Limited ('BTPL') was incorporated on December 23, 1997, as a wholly owned subsidiary of BTL, under the laws of India. Through an agreement of October 8, 1999, Intel Pacific Inc. ('Intel') acquired the beneficial ownership of 15 per cent equity share capital of BTPL, the legal transfer taking place on January 31, 2001 [See Note 3(h)]. BTVL acquired 85 per cent equity share capital of BTPL in May 2001 from BTL and 15 per cent equity share capital from Intel in June 2001.

BTPL has investments in:

- Bharti BT Internet Limited ('BBTIL'), incorporated on June 9, 1998 under the laws of India as a 51:49 Joint Venture with BT, provides internet service in India. BTPL acquired additional 9.22 per cent equity in March 2001 and the balance share of BT of 39.78 per cent in BBTIL on May 18, 2001 to make it a wholly owned subsidiary as of September 30, 2001.
- Bharti BT Limited ('BBTL'), incorporated on March 7, 1995, under the laws of India, provides VSAT services in India. BTPL held 50 per cent equity in BBTL upto March 31, 1999, which was increased to 51 per cent as of March 31, 2000 and March 31, 2001 and finally became a wholly owned subsidiary during the six-month period ended September 30, 2001.

(viii) Bharti Broadband Networks Limited ('BBNL') was incorporated as a wholly owned subsidiary of BTVL on November 23, 2000, under the laws of India, to provide broadband services, including Internet and VSAT services, in India. BBNL is proposed to be merged into BBTIL.

(ix) Bharti Comtel Limited ('BCOL') was incorporated on December 5, 1997, as a wholly owned subsidiary of BTL, under the laws of India. On March 26, 2001, it became a wholly owned subsidiary of BTNL [See Note 3(e)]. BCOL provides administrative support to BTNL's operations.

(x) Bharti Mobitel Limited ('BMBL') (formerly known as 'Spice Cell Limited'), the cellular service operator in the metro city of Kolkata, was incorporated on March 27, 1992. Through an agreement dated July 16, 2001, BCL acquired 100 per cent equity interest in BMBL, held by Modisoft Limited (50.1 per cent), Modicorp Limited (0.9 per cent), Distacom (SA) Limited (24.5 per cent) and CH Mauritius Limited (24.5 per cent) [See note 3(g)].

*(d) Financing of new licences*

At September 30, 2001, the Group has a working capital deficiency of Rs 1,379 million, which has subsequently been funded out of the long-term loans of Rs 4,519 million drawn upto January 1, 2002. The Groups committed liabilities towards contracts already executed as on September 30, 2001 amount to Rs 4,284 million and it believes that it has sufficient funds to be able to meet its committed liabilities over the next twelve months.

The Group has signed the licences for eight CMTS circles for a total licence fee of Rs 6,907 million upto September 30, 2001 and four basic service licences and a domestic long distance service licence subsequent to September 30, 2001 for a total licence fee of Rs 2,450 million. During the six-month period ended September 30, 2001, the Group has raised Rs 26,171 million (Rs 23,291 million through equity and the balance Rs 2,880 million through debt) of which Rs 18,853 million, including licence fee of Rs 6,907 million, has been utilised towards the new licences. In addition, the Group has received letters of intent from several banks to meet its balance long-term funding requirements, and is in the process of evaluating various financing alternatives that best support its business plans. The Group's debt to equity ratio as of September 30, 2001 is 0.33:1 and, therefore, it is confident of organising the required funds. In the event the Group is not able to raise funds as planned, the roll-out of the network for new licences would be undertaken to the extent of funds available with the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*(a) Basis of preparation -*

These consolidated financial statements are prepared under the historical cost convention on the accrual basis of accounting in accordance with the accounting and reporting requirements of International Accounting Standards ('IAS') issued by the International Accounting Standards Board, except that investments held for trading are stated at their fair value [See Note 5], permissible under the IAS, as discussed in the accounting policies thereafter. The significant accounting policies adopted by BTVL and its subsidiaries, in respect of these consolidated financial statements, are set out below.

These consolidated financial statements have been prepared in thousands of Indian Rupees ('Rs'), the national currency of India. For the convenience of readers, the balance sheet and the statement of changes in equity at September 30, 2001 and the statements of income and cash flows for the six-month period ended September 30, 2001 and year ended March 31, 2001 have been translated into thousands of United States Dollars ('US$') using the noon buying rates as specified by the Federal Reserve Bank of New York as at September 28, 2001 which was US$ 1 = Rs 47.9 since September 29 and September 30, 2001 were official holidays. The convenience translation should not be construed as a representation that the Rs amounts or the US$ amounts referred to in these consolidated financial statements have been, could have been, or could in the future be, converted into US$ or Rs, as the case may be, at this or at any other rate of exchange, or at all.

These consolidated financial statements are proposed to be included in the offer document proposed to be filed by the Company with the Securities and Exchange Board of India ('SEBI') for the impending initial public offering of the Company.

Since this is the first time that the Group has reported interim numbers, no comparatives are provided for the preceding year. The management believes it is impracticable to generate the financial results for the preceding year, as the necessary cut-offs were not obtained as of and for the six-month period ended September 30, 2000.

*(b) Changes in accounting principle -*

Following the introduction of IAS 39, Financial Instruments: Recognition and Measurement, investments for trading are carried at fair value, employee advances (current assets), security deposits (non-current assets) and non-interest bearing security deposits (long-term liabilities) have been remeasured on amortised cost basis using the effective interest rate method. This standard has been applied for the period beginning April 1, 2001, with no restatement in the previous periods.

*(c) Accounting records -*

The accounting records of the Group are maintained in accordance with Indian generally accepted accounting principles ('Indian GAAP') and requirements of other applicable Indian laws.

In order to prepare these consolidated financial statements in accordance with IAS, the management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheet as well as the revenues and expenses during the reported periods. While the individual estimates are subject to a degree of uncertainty and, accordingly, the actual results could differ from these estimates, the management believes that their overall effect on the consolidated financial statements would not be material. The principal areas subject to these uncertainties are provisions for account receivables, estimated useful lives of property, plant and equipment, realisation of goodwill and deferred tax asset.

*(d) Principles of consolidation -*

The consolidated financial statements of the Group include BTVL and its majority owned subsidiaries BCL, BTNL, BML (management controlled subsidiary for the year ended March 31, 2000), BAL, BBNL, BTSL, BMBL, Skycell, BTPL, BBTIL, BBTL and BCOL. Management control is normally evidenced when BTVL owns, either directly or indirectly, more than 50 per cent of the voting rights of a company or has the power to cast the majority of votes at meetings of the Board of Directors or equivalent governing body of the company or has the power to appoint or remove majority of the Board of Directors of a company, and is able to govern the financial and operating policies of a company so as to benefit from its activities.

The equity and net profit/(loss) attributable to minority shareholders' interest are shown separately in the balance sheets and income statements.

The purchase method of accounting is used for accounting for acquired businesses. During the year ended March 31, 2000, BTVL acquired management control in BML [See Note 3(a)] and, accordingly, the results of operations of BML are included in the consolidated financial statements from the date of obtaining management control. In the event, the business acquisition is from a common control company, 'Uniting of Interest' method is followed and presented periods are restated to include the effect of this change.

All significant inter-company balances have been eliminated in the consolidation process. The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Investments in associated companies where a significant influence is exercised are accounted for by using the equity method. An assessment of investments in associates is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist. As explained in Note 1(c)(v), the Company acquired a 40.5 per cent equity interest in SkyCell and the results of its operations from the date of acquisition, ie August 7, 2000, have been accounted for under the equity method [See Note 3(f)].

Interest in Joint Ventures is accounted for by using the equity method. An assessment of interests in joint ventures and other ventures is made when there are indications that the assets have been impaired or the impairment losses recognised in the prior years no longer exist. When the joint venture incurs losses, the Company recognises its share of losses until the carrying amount of the investment is reduced to nil.

(e) *Cash and cash equivalents -*

Cash includes cash in hand and cash with banks. Cash equivalents represent highly liquid investments with an original maturity of three months or less.

(f) *Accounts receivables -*

Accounts receivables are stated at face value, after provision for doubtful amounts.

(g) *Marketable securities -*

The Group adopted IAS 39, Financial Instruments: Recognition and Measurement on April 1, 2001. Accordingly, investments acquired principally for the purpose of generating a profit from short-term fluctuation in prices are classified as trading investments. All purchases and sales of investments are recognised on the trade date. Investments are initially measured at cost, which is fair value of the consideration given for them, including transaction costs. Changes in the fair values of trading investments are included in financial expense/ income.

(h) *Inventories -*

Inventories primarily comprise VSAT equipment, handsets and SIM cards and are stated at lower of weighted average cost, determined on a first in first out ('FIFO') basis, or their estimated net realisable value.

(i) *Property, plant and equipment -*

Property, plant and equipment are stated at historical cost, net of accumulated depreciation. All direct costs relating to the acquisition and installation of property, plant and equipment are capitalised.

Depreciation is charged on property, plant and equipment on a straight-line basis from the time they are available for use, so as to make an economic allocation of the cost at which the assets are acquired less their estimated residual values, over their remaining estimated economic lives. Depreciation on freehold land is not provided. Land acquired on lease is amortised over the period of the lease.

The estimated useful lives of various assets are reflected below:

| | Years |
|---|---|
| Buildings | 20 |
| Network equipment | 5-10 |
| Billing and other software | 3 |
| Computer equipment | 3 |
| Office furniture and equipment | 5 |
| Vehicles | 5 |
| Leasehold improvements | Period of the lease |

Property, plant and equipment which have been disposed-off are removed from the gross cost and accumulated depreciation. The gain or loss resulting from their disposal is reflected in the income statement.

Advances paid towards the acquisition of property, plant and equipment outstanding at each balance sheet date and the cost of property, plant and equipment not ready for use before such date are disclosed under capital work-in-progress.

The useful lives and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

(j) *Goodwill -*

Goodwill is stated as an excess of the purchase consideration over BTVL's interest in the fair value of the net identifiable assets acquired. Goodwill is carried at cost less accumulated amortisation and is amortised on a straight-line basis over a period upto 20 years from the month of acquisition.

The unamortised balances are reviewed at each balance sheet date to assess the probability of continuing future benefits. If there is an indication that goodwill may be impaired, the recoverable amount is determined for the cash-generating unit to which the goodwill belongs. If the carrying amount is more than the recoverable amount, an impairment loss is recognised.

(k) *Foreign currency transactions -*

Foreign currency transactions are recorded at the exchange rate applicable at the date of the transaction. Foreign currency denominated monetary assets and liabilities are translated into Indian Rupees at the exchange rate prevailing at the balance sheet date. Exchange differences arising on the settlement of monetary items or on reporting the Group's monetary items at rates different from those at which they were initially recorded in the year, or reported in previous financial statements, are recognised in the income statement in the year in which they arise.

(l) *Operating leases -*

Leases of assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense in the income statement, on a straight-line basis over the lease term.

(m) *Impairment of assets -*

Property, plant and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items of property, plant and equipment carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset, from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

(n) *Revenue recognition -*

(i) *Service revenues*

Service revenues include amounts invoiced for airtime charges, call revenue, fixed monthly subscription charges and VSAT/ internet usage charges, roaming charges, activation fees, and fees for value added services ('VAS'). Service revenues also include revenues associated with access and interconnection for usage of the telephone network of the incumbent access service operator for local, domestic long distance and international calls.

Service revenues are recognised as the services are rendered and are stated net of discounts and taxes. Revenues from pre-paid cards are recognised based on the actual usage. Activation revenues in excess of the related direct costs are deferred and are recognised over the estimated period that a subscriber is expected to stay on the network. This estimated period is determined on the basis of the historical average churn rates and expected future churn trends.

Unbilled receivables represent revenues recognised in respect of cellular and access services provided from the bill cycle date to the end of each month. These are billed in subsequent periods as per the terms of the billing plans.

Revenue received in advance includes unused amounts of revenue billed in respect of pre-paid cards. The related services/billing are expected to be performed within the next operating cycle.

(ii) *Equipment sales -*

Equipment sales consist primarily of revenues from sale of VSAT equipment (hardware), cellular handsets, access service handsets and related accessories to subscribers and are recognised at the time of delivery of the equipment.

(o) *Licence fees -*

(i) *Licences signed prior to March 31, 2001 under the old licence fee regime -*

Licence agreements executed by the Group under the old licence fee regime were in the nature of operating leases. Accordingly, the licence fee costs incurred by the Group under the old licence fee regime until the date of migration to the NTP, ie July 31, 1999, and revenue-share fee from the date of migration are expensed as incurred. The revenue-share fee is computed on the basis of AGR in the six-month period ended September 30, 2001. For the previous periods, though the revenue share was computed on the basis of service revenues, as defined in Note 2(n)(i) as reduced by access and interconnection charges, the Group has recorded a catch-up adjustment in the current period for the prior period to compute the licence fee on an AGR basis.

(ii) *Licences signed subsequent to March 31, 2001 under the NTP 1999 -*

Licence signed/awarded post March 31, 2001, under the NTP 1999, stipulate the payment of one time fee termed as 'licence entry fee' to obtain the right to operate services and annual usage charge on the basis of the percentage of revenues ie 'revenue share' [See Note 1(b)].

Licence entry fee has been recognised as an intangible asset and is measured initially at cost. After initial recognition, licence entry fee is measured at cost less accumulated amortisation and any other accumulated impairment losses. Licence entry fee is amortised on a straight line basis over the period of the licence from the date of commencement of commercial operations. The revenue-share fee is computed on the basis of AGR in the six-month period ended September 30, 2001 and is expensed as incurred.

The regulatory changes described in Note 1(b) affect the basis of estimating the charge on account of licence fees, which under the old licence fee regime was a fixed annual charge or a semi-variable charge based on the subscriber numbers with respect to the Delhi circle, whereas, under the new regime is based on a percentage of revenues.

(p) *Borrowing costs -*

Borrowing costs are expensed as incurred. Borrowing costs include interest and amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

*(q) Employee stock option plan -*

Employee stock option compensation expense is accrued on the date of the grant of stock options to the employees and amortised equally over the period from the grant date to the date of final vesting. The Board of Directors of the Company approved an employee stock option plan ('ESOPs') for the Group in February 2001. Under the scheme, the Company would offer equity shares at a discount of 50 per cent of the Initial Public Offering ('IPO') price, the total value of the options/shares being determined at the time of the grant, with the number of shares being dependent on the IPO price. The vesting of the options would be over a period of 42 months to 48 months from the date of grant.

*(r) Retirement benefits -*

The Group has various defined contribution retirement schemes such as gratuity and superannuation, which are administered through an insurance scheme. While the Group provides for gratuity based on an actuarial valuation carried out at the balance sheet date, superannuation benefits are recorded on the basis of contributions to the insurance scheme.

In addition, Provident fund and Employees' state insurance schemes, which are also defined contribution schemes recognised by the Indian Revenue Authorities, are administered through the Central Government. The Group's contributions to these schemes are expensed in the income statement each year.

*(s) Income-taxes -*

The income-tax charge is based on the profit/loss for the year or a part thereof and considers deferred taxation. Deferred taxes are calculated using the balance sheet liability method. Deferred income-taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income-tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years or parts thereof in which those temporary differences are expected to be recovered or settled. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the Group expects, at the balance sheet date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised. At each balance sheet date, the Group re-assesses unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group recognises a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or that entire deferred tax asset to be utilised.

*(t) Provisions*

A provision is recognised when, and only when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

*(u) Pre-operating costs*

The pre-operating costs represent certain marketing and administrative expenses incurred prior to the commencement of commercial operations of the new licences. These costs, identified specifically for each of the new licences, are expensed as incurred in the books of account as they are not directly related to the construction of the network and are separately disclosed in the Income Statement.

*(v) Subsequent Events*

Post-period-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes when material.

*(w) Segmental reporting -*

The Group undertakes four major business activities i.e., provision of cellular, access services, broadband and domestic long distance. The business activities are the basis upon which the Group reports its primary segment information.

Inter-segment transactions, including segment revenue and segment expenses, include transfers between business segments. Such transfers are accounted for at competitive market prices charged to unaffiliated customers for similar services. These transfers are eliminated in consolidation.

*(x) Adoption of IAS -*

As the Group has prepared consolidated financial statements in accordance with IAS as the primary basis of accounting for the first time, standards effective as at the latest balance sheet date have been applied to all the years presented. There are no resulting adjustments to the opening balances of retained earnings, due to the transition to IAS.

The Group has adopted the requirements of the following revised or new International Accounting Standards, which have been implemented in the accompanying consolidated financial statements, in advance of their effective dates:

*Revised Standards*

- IAS 1 (Revised 1997) - Presentation of Financial Statements
- IAS 10 (Revised 1999) - Events After the Balance Sheet Date
- IAS 12 (Revised 2000) - Income Taxes
- IAS 14 (Revised 1997) - Segment Reporting
- IAS 16 (Revised 1998) - Property, Plant and Equipment
- IAS 17 (Revised 1997) - Leases
- IAS 19 (Revised 2000) - Employee Benefits
- IAS 22 (Revised 1998) - Business Combinations
- IAS 27 (Revised 2000) - Consolidated Financial Statements and Accounting for Investments in Subsidiaries
- IAS 28 (Revised 2000) - Accounting for Investment in Associates

*New Standards*

- IAS 33 - Earnings Per Share
- IAS 36 - Impairment of Assets
- IAS 37 - Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 - Intangible Assets
- IAS 39 - Financial Instruments: Recognition and Measurement

## 3. CHANGES IN THE GROUP'S ORGANISATION

a) *BML (Karnataka and Andhra Pradesh Circles) -*

BTVL completed the 100 per cent acquisition of SC Cellular Holdings Limited ('SCHL') and resultantly acquired an effective shareholding of 74 per cent in BML through SCHL by October 31, 2000. Though the actual share transfer took place on October 12, 2000 with respect to transfer of equity shareholdings of BML and SCHL, the Company acquired the management control in BML in November 1999. The following table reflects the changes in effective ownership of BTVL in BML:

| | Effective holding of BTVL in | |
|---|---|---|
| **Date*** | **SCHL (in per cent)** | **BML (in per cent)** |
| November 30, 1999 | 63.45 | 32.36 |
| April 1, 2000 | 61.30 | 45.36 |
| October 31, 2000 | 100.00 | 74.00 |

** The dates above reflect the cut-off dates for accounting purposes. The gap between the actual date of acquisition and the accounting date is not significant.*

The total goodwill created as a result of the above acquisition is Rs 10,844,055 at March 31, 2001.

The details of the above transactions, along with the purchase consideration and the resultant goodwill have been discussed below:

(i) Acquisition of 63.45 per cent effective equity interest in SCHL, through three special purpose vehicles – Jumbo Holdings Limited, Jubiliant Holdings Limited and Viscount Holdings Limited, and thereby, an effective equity interest of 32.36 per cent in BML as of November 30, 1999

The purchase consideration of Rs. 551,540 together with the share in the fair value of net liabilities of BML of Rs. 2,387,670 forms a part of the goodwill. The balance goodwill of Rs. 766,905, accounted for on the basis of the guidance under IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries), comprise the excess of 26 per cent of accumulated losses of BML as of November 30, 1999, attributable to the Minority Shareholder of BML, over the Minority Shareholder's contribution towards equity and advance application money. This transaction resulted into an aggregate goodwill of Rs. 3,706,115, which is amortised over a period of 20 years.

Even though, BTVL did not possess an effective equity interest of 51 per cent in BML, it had the management control as of November 30, 1999. Therefore, under IAS 22, the results of operations of BML from December 1, 1999 have been consolidated in these financial statements.

(ii) Acquisition of an effective equity interest of 13 per cent in BML through SCHL as of April 3, 2000

The purchase price of Rs. 52,000 paid in addition to the share in the fair value of net liabilities of Rs. 967,650 as of April 1, 2000, reduced by the right to claim technical service fees of Rs. 253,714 and other recoverables of Rs. 116,479 from BML, resulted in goodwill of Rs. 649,457, which is amortised over 20 years on a straight line basis.

(iii) Acquisition of an effective equity interest of 20 per cent in BML through SCHL as of October 24, 2000

BTVL acquired additional 20 per cent effective equity interest in BML from Cadeval Group Limited ('Cadeval') and Nicobar Holdings Limited ('Nicobar') and issued its 4.5 million equity shares of face value of Rs. 10 each on December 5, 2000 to Coment (Mauritius) Limited and KMZ Investments Private Limited. The beneficial ownership in BML, however, was transferred to BTVL as of October 24, 2000. This transaction resulted in goodwill of Rs. 4,877,868, to be amortised over 20 years., comprising:

a) share in the fair value of net liabilities of BML as of October 31, 2000 of Rs. 1,523,368 (after adjusting equity contributions made by the Cadeval and Nicobar);

b) debt waiver of Rs. 489,500 by BTVL; and

c) balance purchase consideration based on the fair value *less the issue price* of 4.5 million equity shares of BTVL.

Further, as of March 31, 2000, Parasrampuria Credit & Investment Limited ('PCIL'), erstwhile nominee shareholder of Mr RK Kataria (a promoter in Cadeval) in BML, has claimed 20 per cent ownership in BML and, has accordingly, filed a suit in the Delhi High Court and also filed a civil suit in the Bangalore City Civil Court against Mr RK Kataria and the original shareholders of BML, for specific performance of its right. The Bangalore City Civil Court has directed PCIL to pay court fee stamp amounting to Rs. 20,000 if it wants to proceed further in the matter. PCIL has appealed against the order for which appeal is listed and is pending for hearing. No equity allotments were made to PCIL by BML since its incorporation. The Group believes that PCIL would not be successful in its claim, however, it has an indemnity through the pledge of 1 million shares (pre-bonus) allotted to KMZ Investment Private Limited, for the settlement of this dispute.

(iv) Acquisition of an effective equity interest of 8.64 per cent in BML through SCHL as of October 31, 2000

BTVL acquired an additional 8.64 per cent effective equity interest in BML from an erstwhile shareholder of SCHL and issued 1.674 million equity shares of face value of Rs 10 each, on December 5, 2000, to them. The beneficial ownership in BML, however, was transferred to BTVL as of October 31, 2000. This transaction resulted in goodwill of Rs. 1,610,615, to be amortised over 20 years,comprising:

a) share in the fair value of net liabilities of BML as of October 31, 2000 of Rs. 508,095 (after adjusting equity contributions made by seller); and

b) purchase consideration based on the fair value *less the issue price* of 1.674 million equity shares of BTVL.

b) *BML (Punjab Circle) -*

BML was also awarded a licence by the DoT to operate cellular services in the state of Punjab in December 1995. On April 18, 1996, subject to certain conditions, BML obtained the permission from the DoT to operate the Punjab licence through its wholly owned subsidiary, Evergrowth Telecom Limited ('ETL').

BML entered into an agreement on September 6, 1996 ('the financial arrangement') with ETL and Essar Investments Limited ('Essar'), wherein Essar was to facilitate implementation of the Punjab licence by ETL and provide the necessary funding. Pursuant to these financial arrangements, till such time loan or accrued interest thereon or any other sums due or payable under the financing agreement are outstanding, Essar was given the powers to govern the operating and financial policies of ETL and thereby derive benefits from its operations. Accordingly, even though, BML holds 100 per cent share capital of ETL, in accordance with IAS 22 (Business Combinations) its assets and liabilities are not included in these consolidated financial statements.

On December 11, 1996, the DoT withdrew its permission of April 18, 1996 granted to BML and reinstated the permission again on March 10, 1998, without any change in facts and circumstances between these dates (the period from April 18, 1996 to March 10, 1998 has been hereinafter referred to as 'the black-out period'). Finally, the Punjab licence was terminated by the DoT on July 15, 1999 due to alleged non-payment of licence fees, liquidated damages and related penal interest aggregating to Rs 3,182,800. As, ETL was no longer permitted to operate the Punjab licence, the investments of Rs 300,000 made by BML in ETL were fully provided for in the books of BML at November 30, 1999. Also, the bank guarantees of Rs 350,000 furnished by BML and counter guaranteed by its shareholders were encashed by the DoT. Of this amount, Rs. 280,000 has been received by BML from its shareholders and the balance of Rs. 70,000 has been received from Essar.

In September 2001, BML received the Punjab licence restoration offer ('the Offer') from the DoT. As per the Offer, DoT demanded BML to pay Rs 4,910 million with respect to all dues (licence fees, WPC charges liquidated damages and related penal interest) pending the resolution of the dispute relating to the licence fee for the black-out period which would be referred to an independent arbitrator, whose award shall be binding on both BML and the DoT.

BML has given its unconditional consent to the Offer made by the DoT and paid Rs 4,910 million to the DoT by September 20, 2001 [Also See Note 34(d)]. Consequently, the DoT approved the restoration of the Punjab licence on September 25, 2001 ('restoration offer') and on September 27, 2001, the DoT approved the appointment of an arbitrator for adjudication and determination of the dispute. The arbitrator has commenced the proceedings on October 9, 2001 and is required to present his award by February 9, 2002.

BML, based on a legal opinion, believes that the final liability would not exceed Rs 800 million and, accordingly, the same has been provided in the books of BML in November 1999. The additional amount of Rs 4,110 million is considered recoverable by BML and consequently has not been provided in these consolidated financial statements.

BML has informed Essar on September 21, 2001 that the financial arrangement stands terminated as it believes that there have been various defaults committed by Essar under the financial arrangement. In addition, the Group, based on a legal opinion, believes that Essar has no rights to make claims against BML under the financial arrangement. Also, the restoration order permitted the operation of the licence by BML with a stipulation that no request would be raised for implementation of the licence through any subsidiaries, including ETL.

c) *BCL -*

On October 4, 2000, the Company acquired an additional 2 per cent equity share in BCL, thereby taking its total shareholding to 53 per cent. The excess of purchase consideration of Rs. 371,220 over the fair value of the net assets acquired of Rs. 21,713 has been accounted for as goodwill of Rs. 349,507, to be amortised over a 20 year period.

Further, on January 11, 2001, the Company acquired additional 3 per cent equity shares in BCL, thereby taking its total shareholding to 56 per cent [See Note 1(c)(i)]. The Company agreed to issue 934,256 equity shares of BTVL of face value of Rs 10 each, to the seller on April 20, 2001. The excess of purchase consideration of Rs. 625,952, determined on the basis of fair valuation of BTVL's shares, over the fair value of net assets of BCL of Rs. 30,521 on the date of transfer, resulted into goodwill of Rs. 595,430, to be amortised over a 20 year period.

On August 31, 2001, the Company acquired the balance 44 per cent equity stake in BCL, from BT (Netherlands) Holdings BV and General Mobile Company for an 'all cash' purchase consideration of Rs. 7,793,818. The excess of purchase consideration of Rs. 7,793,818 over the fair value of net assets acquired of Rs. 776,292 has been accounted for as goodwill of Rs. 7,017,526 to be amortised over a 20 year period.

d) *BTNL -*

On September 8, 2000 and October 4, 2000, the Company acquired an additional 18.8 per cent from BTL, and 30.2 per cent equity interest from STET in BTNL [See Note 1(c)(ii)], respectively, thereby taking its total shareholding to 100 per cent. Since BTVL and BTNL are under the 'Common Control' of BTL, the acquisition of 18.8 per cent in BTNL is outside the purview of IAS 22 (Business Combinations) and has been accounted for on a 'Uniting of Interest' basis in these consolidated financial statements retrospectively for all periods presented. With respect to the balance 30.2 per cent acquisition in BTNL from STET, the excess of purchase consideration of Rs. 972,718 over its share in the fair value of net assets acquired of Rs. 460,727 has been accounted for as goodwill of Rs. 511,991, to be amortised over a 20 year period.

e) *BCOL -*

On March 26, 2001, BTNL acquired the 100 per cent equity interest in BCOL from BTL [See Note 1(c)(viii)]. Since BTNL and BCOL are under the 'Common Control' of BTL, the acquisition of BCOL is outside the purview of IAS 22 (Business Combinations) and has been accounted for on a 'Uniting of Interest' basis in these consolidated financial statements retrospectively for all periods presented.

*f) SkyCell -*

On August 7, 2000, BTVL acquired 40.5 per cent equity interest in SkyCell from Crompton for a consideration of Rs 1,246,447 with the intention of acquiring operational and management control [See Note 1(c)(v)]. Since the Company had not acquired full operational and management control upto March 31, 2001, the investment has been accounted for under the 'Equity method'.

The Company's share of net liabilities of Rs. 513,540, together with the consideration paid, resulted in intangibles (goodwill) of Rs. 1,759,987 at August 7, 2000. These intangibles, together with the costs of acquisition of Rs. 51,508, were amortised over a 20 year period from the month of acquisition [See Note 8] for the year ended March 31, 2001.

On September 13, 2001, the Company acquired 24.5 per cent equity interest each of Bellsouth and Millicom, respectively for an aggregate 'all cash' consideration of Rs 3,169,493. This transaction resulted in the beneficial holding of 89.5 per cent of the equity shares of SkyCell by the Company as of September 13, 2001, accordingly SkyCell has been consolidated effective this date. The acquisition resulted into total goodwill of Rs 4,394,382, to be amortised over 20 years, comprising:

- purchase consideration of Rs 1,998,000 paid to Bellsouth and Millicom;
- balance in the investment account with respect to the 40.5 per cent equity shares of Skycell for Rs 1,171,493; and
- share of the fair value of net liabilities of Skycell of Rs 1,096,276 at September 13, 2001.

The balance goodwill of Rs. 128,613, accounted for on the basis of the guidance under IAS 27 (Consolidated Financial Statements and Accounting for Investments in Subsidiaries), comprise the excess of 10.5 per cent of accumulated losses of SkyCell as of September 13, 2001, attributable to the Minority Shareholder of SkyCell, over the Minority Shareholder's contribution towards equity share capital.

*g) BMBL -*

On July 16, 2001, BCL acquired the management control and beneficial ownership of 100 per cent equity of Bharti Mobitel Limited (formerly known as 'Spice Cell Limited'), the cellular service operator in the metro city of Kolkata, for a cash consideration of Rs 3,134,907 and cost of acquisition of Rs 10,000.

The consideration of Rs 3,144,907 together with net liabilities of Rs 456,738 has been treated as goodwill of Rs 3,601,645 to be amortised over 20 years.

*h) BTPL -*

BTVL acquired 85 per cent equity share capital in BTPL, a subsidiary of BTL, in May 2001. As BTVL and BTPL are under the common control of BTL, the acquisition of BTPL is outside the purview of IAS 22 - 'Business Combinations' and has been accounted for on a 'Uniting of Interest' basis in these consolidated statements retrospectively for all periods presented. The balance 15 per cent equity share capital held by Intel, has been acquired on June 1, 2001 for an all cash consideration of Rs 274,026. This transaction resulted in goodwill of Rs 298,629, representing the purchase consideration of Rs 274,026 and share of net liabilities of Rs 24,603.

BTPL provides internet services through its investments in BBTIL, a joint venture with British Telecom ('Btel'). Though, BTPL held 51 per cent equity shares in BBTIL upto March 31, 2000, the management control was equally shared by BTPL and BT. Accordingly, BBTIL has been accounted for on an equity basis of accounting for the years ended March 31, 1999 and 2000 as permissible under IAS 31 - 'Financial Reporting of Interests in Joint Ventures'.

In March 2001, BTPL acquired an additional 9.22 per cent equity share of BBTIL through subscription of renounced rights of Btel for a consideration of Rs 352,713, represented by 25 per cent discount on the offer price of the equity shares. This resulted into the management control being transferred to BTPL. Accordingly , BBTIL has been consolidated effective March 30, 2001. This transaction resulted in goodwill of Rs 81,949 to be amortised over a period of 20 years. Further, on May 18, 2001, BTPL acquired the remaining 39.78 per cent of BBTIL from Btel for an 'all cash' consideration of Rs 341,703. This transaction resulted in goodwill of Rs 186,665 to be amortised over a period of 20 years. For accounting convenience, the cut-off date for the acquisition has been considered as May 31, 2001.

BTPL also provides VSAT services through its 51 per cent investments in BBTL, the balance 49 per cent being held by Btel as of March 31, 2001. Even though BTPL held 51 per cent of the equity in BBTL, the management control was shared equally between BTPL and Btel. Accordingly, BBTL has been accounted for on a equity basis of accounting for the years ended March 31, 1999, 2000 and 2001 as permissible under IAS 31 - 'Financial Reporting of Interests in Joint Ventures'.

On June 22, 2001, BTPL acquired the balance 49 per cent equity interest in BBTL for an consideration of Rs 391,911, represented by:

- Cash consideration of Rs 316,000, and
- Balance in the investment account of Rs 75,911.

The transaction resulted into goodwill of Rs 203,621 represented by excess of purchase consideration of Rs 391,911 over the share of the net assets of BBTL. Accordingly, BBTL has been consolidated in the books of BTVL effective June 30, 2001, from an accounting convenience perspective.

## 4. CASH AND CASH EQUIVALENTS

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Cash-in-hand | 9,505 | 7,614 | 13,761 | 287 |
| Cheques-in-hand and in transit | 23,797 | 120,265 | 71,775 | 1,498 |
| Bank balances | | | | |
| Current accounts | 138,940 | 135,471 | 327,953 | 6,848 |
| Deposit accounts | 17,630 | 110,894 | 212,987 | 4,446 |
| | **189,872** | **374,244** | **626,476** | **13,079** |

(a) Deposit accounts include Rs 17,346 as at September 30, 2001 (March 31, 2001 - Rs 6,765 and March 31, 2000 - Rs 9,331) restricted as to usage under lien to banks for guarantees and letters of credit given in favour of the Group.

(b) Deposit accounts also include Rs 61,700 as at September 30, 2001, deposited with the Telecom Dispute Settlement Appellate Tribunal ('TDSAT') relating to TRAI tariff order of January 25, 2001 ('the order'). Though the Group has disputed the basis of computing the refund as per the order, it has expensed its entire liability on the refund in the year ended March 31, 2001 [See Note 16].

## 5. MARKETABLE SECURITIES

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| **Quoted** | | | | |
| Treasury bills | 662,835 | 155,867 | - | - |
| Government securities | - | 159,340 | 221,025 | 4,614 |
| Investment in mutual funds | - | 916,883 | 188,081 | 3,927 |
| Debentures | - | 106,075 | 52,197 | 1,090 |
| Bonds | 1,708,313 | 3,182,310 | 1,201,590 | 25,085 |
| | 2,371,148 | 4,520,475 | 1,662,893 | 34,716 |
| **Unquoted** | | | | |
| Inter-corporate deposits ('ICDs') | 455,944 | 871,201 | 161,771 | 3,377 |
| Time deposit (with original maturities exceeding three months) | 3,255 | - | - | - |
| | 459,199 | 871,201 | 161,771 | 3,377 |
| | **2,830,347** | **5,391,676** | **1,824,664** | **38,093** |
| Interest accrued on quoted marketable securities | 72,046 | 232,483 | 65,233 | 1,362 |
| | **2,902,393** | **5,624,159** | **1,889,897** | **39,455** |
| Market value of quoted securities | 2,412,945 | 4,634,008 | 1,666,670 | 34,795 |

(a) The market value of unquoted investments as at September 30, 2001 was Rs 161,771 (March 31, 2001 - Rs 872,896, March 31, 2000 - Rs 459,199), assessed on the basis of subsequent realisation from the sale of securities, and/or estimation of realisable amounts.

(b) Inter-corporate deposits include Rs 10,575 (March 31, 2001 - Rs Nil, March 31, 2000 - Rs 49,809) to the Parent and Rs 151,196 (March 31, 2001 - Rs Nil, March 31, 2000 - Rs Nil) to Bharti Telesoft Limited, being a related party.

## 6. ACCOUNTS RECEIVABLES, NET

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | (Restated) | (Restated) | (Unaudited) | (Unaudited) |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Accounts receivables | 821,755 | 1,381,293 | 2,369,910 | 49,476 |
| Less: Allowance for bad and doubtful debts | (210,179) | (338,809) | (942,953) | (19,686) |
| | **611,576** | **1,042,484** | **1,426,957** | **29,790** |
| The movement in allowances for bad debts is as follows: | | | | |
| Balance, beginning of year/ period | 299,802 | 210,179 | 338,809 | 7,074 |
| Additions- | | | | |
| Provision created during the year/ period | 98,462 | 163,861 | 161,485 | 3,372 |
| Acquisition through business combinations | 158,515 | 4,058 | 442,659 | 9,240 |
| Application- | | | | |
| Write-off of bad debts (net of recovery) | (346,600) | (39,289) | - | - |
| **Balance, end of year/period** | **210,179** | **338,809** | **942,953** | **19,686** |

## 7. OTHER CURRENT ASSETS

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | Restated) | (Restated) | (Unaudited) | (Unaudited) |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Employee receivables | 14,478 | 13,142 | 43,840 | 914 |
| Prepaid expenses | 195,679 | 366,755 | 415,053 | 8,664 |
| Advances to suppliers | 19,261 | 67,651 | 89,696 | 1,872 |
| Others | 4,397 | 456,292 | 4,721,740 | 98,575 |
| | **233,815** | **903,840** | **5,270,329** | **110,027** |

(a) Effective April 1, 2001, employee receivables have been remeasured at the amortised cost based on effective interest method as defined under IAS 39 — Financial Instruments: Recognition and Measurement, thereby recognising a total amortisation of Rs 9,158 at September 30, 2001.

(b) 'Others' in the note above, include:

(i) Rs 4,110,000 (March 31, 2001 – Rs Nil and March 31, 2000 - Rs Nil) paid to the DoT towards the Punjab licence liability and considered recoverable by the Group [See Note 3(b)].

(ii) Rs 240,250 (March 31, 2001 – Rs Nil and March 31, 2000 - Rs Nil) recoverable from BT as a pre-payment cash discount towards the acquisition of 44 per cent equity in BCL. [See Note 3(c)]. This amount has been subsequently recovered by the Company on October 11, 2001.

(iii) Rs 57,344 (March 31, 2001 - Rs 50,150 and March 31, 2000 - Rs Nil) being advance tax recoverable which is under appeal with the relevant authorities.

## 8. INVESTMENT IN ASSOCIATE AND JOINT VENTURES

Investments in associate and joint ventures comprise:

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| **Investment in associates** | | | | |
| Balance, beginning of the year/ period | - | - | 1,187,855 | 24,799 |
| Net liabilities taken over at the acquisition date | - | (513,540) | - | - |
| Intangibles (goodwill), created as a part of the acquisition | - | 1,759,987 | - | - |
| Costs of acquisition | - | 51,508 | - | - |
| Gross investment value | - | 1,297,955 | 1,187,855 | 24,799 |
| Less: BTVL's share of losses | - | (49,717) | (16,362) | (342) |
| Adjustment due to acquisition of controlling interest | - | - | (1,171,493) | (24,457) |
| Amortisation of intangibles and acquisition costs | - | (60,383) | - | - |
| **Net investment in associate/ joint ventures** | - | **1,187,855** | - | - |
| **Investment in joint ventures** | | | | |
| Balance, beginning of the year/ period | 187,112 | 150,257 | 102,529 | 2,140 |
| Investments during the year/ period | 76,668 | 499,809 | - | - |
| Share of net profits/ (losses) | (113,523) | (194,825) | (26,617) | (555) |
| Adjustment due to acquisition of controlling interest | - | (352,712) | (75,912) | (1,585) |
| **Balance, end of the year/ period** | **150,257** | **102,529** | **-** | **-** |
| **Net investment in associate and joint ventures** | **150,257** | **1,290,384** | **-** | **-** |

Investments above include, investments in Skycell, an associate upto September 13, 2001 [See Note 3(f)], BBTIL, a joint venture upto March 30, 2001 and BBTL, a joint venture upto June 30, 2001 [See Note 3(h)].

### 9. PROPERTY, PLANT AND EQUIPMENT, AND CAPITAL WORK IN PROGRESS, INCLUDING CAPITAL ADVANCES

(a) Property, plant and equipment comprise the following:

| | Land | Buildings | Network equipment | Computer equipment | Office furniture & equipment | Vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| April 1, 1999 (*Restated*) | 58,354 | 169,542 | 3,596,515 | 214,422 | 100,780 | 27,947 | 22,986 | 4,190,546 |
| Additions | 41,013 | 112,353 | 2,833,646 | 170,967 | 47,830 | 10,367 | 16,678 | 3,232,854 |
| Acquisition through business combination [See Note 3(a)] | 5,400 | - | 1,188,613 | 225,551 | 37,133 | 7,903 | 26,218 | 1,490,818 |
| Disposals | - | - | (230,151) | (156) | (989) | (3,451) | (8,664) | (243,411) |
| **March 31, 2000** | **104,767** | **281,895** | **7,388,623** | **610,784** | **184,754** | **42,766** | **57,218** | **8,670,807** |
| **Accumulated depreciation** | | | | | | | | |
| April 1, 1999 | - | 16,827 | 676,690 | 78,564 | 51,094 | 7,269 | 1,885 | 832,329 |
| Depreciation for the year (including provision for impairment of network equipment of Rs 168,693) [See Note 9(b)] | 535 | 14,120 | 687,679 | 108,071 | 34,530 | 7,177 | 1,626 | 853,738 |
| Acquisition through business combination [See Note 3(a)] | - | - | 357,933 | 160,504 | 24,350 | 3,035 | 8,014 | 553,836 |
| Disposals | - | - | (19,051) | (4) | - | (1,974) | - | (21,029) |
| March 31, 2000 | **535** | **30,947** | **1,703,251** | **347,135** | **109,974** | **15,507** | **11,525** | **2,218,874** |
| **Net book value March 31, 2000** *(Restated)* | **104,232** | **250,948** | **5,685,372** | **263,649** | **74,780** | **27,259** | **45,693** | **6,451,933** |
| **Cost** | | | | | | | | |
| April 1, 2000 | 104,767 | 281,895 | 7,388,623 | 610,784 | 184,754 | 42,766 | 57,218 | 8,670,807 |
| Additions | 97,880 | 66,721 | 4,875,070 | 197,455 | 63,971 | 17,374 | 28,042 | 5,346,513 |
| Acquisition through business combination [See Note 3(f),(g)&(h)] | - | - | 311,274 | 87,522 | 43,830 | - | 18,391 | 461,017 |
| Disposals | (192) | - | (82,219) | (3,120) | (2,407) | (9,239) | (6,669) | (103,846) |
| March 31, 2001 | **202,455** | **348,616** | **12,492,748** | **892,641** | **290,148** | **50,901** | **96,982** | **14,374,491** |
| **Accumulated depreciation** | | | | | | | | |
| April 1, 2000 | 535 | 30,947 | 1,703,251 | 347,135 | 109,974 | 15,507 | 11,525 | 2,218,874 |
| Depreciation for the year | 354 | 18,118 | 1,069,120 | 147,125 | 49,274 | 10,625 | 8,296 | 1,302,912 |
| Acquisition through business combination [See Note 3(f),(g)&(h)] | - | - | 38,353 | 24,952 | 9,607 | - | 3,783 | 76,695 |
| Disposals | - | - | (41,602) | (2,556) | (1,792) | (4,769) | (1,243) | (51,962) |
| March 31, 2001 | **889** | **49,065** | **2,769,122** | **516,656** | **167,063** | **21,363** | **22,361** | **3,546,519** |
| **Net book value March 31, 2001** *(Restated)* | **201,566** | **299,551** | **9,723,626** | **375,985** | **123,085** | **29,538** | **74,621** | **10,827,972** |
| **Cost** | | | | | | | | |
| April 1, 2001 | 202,455 | 348,616 | 12,492,748 | 892,641 | 290,148 | 50,901 | 96,982 | 14,374,491 |
| Additions | 18,954 | 24,009 | 1,464,467 | 107,715 | 45,847 | 2,560 | 8,391 | 1,671,943 |
| Acquisition through business combination [See Notes 3(f),(g)&(h)] | 32,730 | 186,392 | 2,580,620 | 278,006 | 119,116 | 6,905 | 24,630 | 3,228,399 |
| Disposals | - | - | (13,469) | (1,294) | (10,232) | (6,972) | - | (31,967) |
| **September 30, 2001** | **254,139** | **559,017** | **16,524,366** | **1,277,068** | **444,879** | **53,394** | **130,003** | **19,242,866** |

| | Land | Buildings | Network equipment | Computer equipment | Office furniture & equipment | Vehicles | Leasehold improvements | Total |
|---|---|---|---|---|---|---|---|---|
| **Accumulated depreciation** | | | | | | | | |
| April 1, 2001 | 889 | 49,065 | 2,769,122 | 516,656 | 167,063 | 21,363 | 22,361 | 3,546,519 |
| Depreciation for the period | 2 | 13,066 | 690,186 | 146,136 | 29,728 | 2,692 | 6,836 | 888,646 |
| Acquisition through business combination [See Note 3(f),(g)&(h)] | - | 10,944 | 1,173,273 | 208,233 | 94,745 | 3,554 | 24,198 | 1,514,947 |
| Disposals | - | - | (7,560) | (194) | (7,941) | (5,008) | - | (20,703) |
| **September 30, 2001** | **891** | **73,075** | **4,625,021** | **870,831** | **283,595** | **22,601** | **53,395** | **5,929,409** |
| **Net book value September 30, 2001** *(Unaudited)* | **253,248** | **485,942** | **11,899,345** | **406,237** | **161,284** | **30,793** | **76,608** | **13,313,457** |
| **Thousands of US Dollars** | **5,287** | **10,145** | **248,421** | **8,481** | **3,367** | **643** | **1,599** | **277,943** |

b) Provision for impairment of Rs 168,693 was created in the year ended March 31, 2000 on base transceiver stations identified by BCL for transfer to BML and BTNL at a price lower than their net book value, due to technical obsolescence of the equipment. The provision is computed as the difference between the carrying value of the equipment and its recoverable value. The recoverable value of the equipment is determined as the higher of the net selling (transfer) price and the value in use. The net selling (transfer) price, determined through a joint evaluation of this equipment by BCL and its equipment suppliers, was higher than the expected value based on its condition at the time of evaluation, without considering any re-engineering of this equipment.

c) As of September 30, 2001, the gross carrying amounts of certain items of computers of Rs 577,721 (March 31, 2001 - 269,294 and March 31, 2000 - Rs 230,450), office furniture and equipment of Rs 81,550 (March 31, 2001 - Rs 25,958 and March 31, 2000 - Rs 704), and vehicles of Rs 25,133 (March 31, 2001 - Rs 7,287 and March 31, 2000 - Rs 1,975), are fully depreciated, but these items are still in active use.

d) The movement in Capital work-in-progress, including capital advances, is as follows:

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Balance, beginning of year/period | 1,211,774 | 1,737,457 | 2,664,573 | 55,628 |
| Acquisition through business combination | 51,165 | 46,807 | 110,270 | 2,302 |
| Additions | 3,308,164 | 5,755,379 | 4,620,334 | 96,458 |
| Capitalised (transfer to Network Equipment) | (2,833,646) | (4,875,070) | (1,464,467) | (30,574) |
| **Balance, end of year/period** | **1,737,457** | **2,664,573** | **5,930,710** | **123,814** |

## 10(a) GOODWILL

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| *Cost* | | | | |
| Beginning of the year/ period | 101,819 | 3,807,934 | 12,484,752 | 260,642 |
| Acquisition of subsidiary/additional equity in subsidiaries | 3,706,115 | 8,676,818 | 15,702,467 | 327,817 |
| Adjustment for recognition of deferred tax asset [See Note 11] | - | - | (1,367,310) | (28,545) |
| **End of the year/ period** | **3,807,934** | **12,484,752** | **26,819,909** | **559,914** |
| *Accumulated amortisation* | | | | |
| Beginning of the year/ period | 15,596 | 82,947 | 470,453 | 9,822 |
| Amortisation for the year/ period | 67,351 | 387,506 | 398,907 | 8,327 |
| Write back of amortisation for recognition of deferred tax asset [See Note 11] | - | - | (90,924) | (1,898) |
| End of the year/period | 82,947 | 470,453 | 778,436 | 16,251 |
| **Net Book Value** | **3,724,987** | **12,014,299** | **26,041,473** | **543,663** |

Goodwill comprises:

| Nature of transaction | Year/ period ended | Resultant Goodwill | Amortisation Period |
|---|---|---|---|
| Acquisition of: | | | |
| BCL by BTVL | March 31, 1996 | 98,583 | 20 years |
| Welldone by BCL | March 31, 1998 | 3,236 | 5 years |
| An effective equity interest of 32.36 per cent in BML by BTVL | March 31, 2000 | 3,706,115 | 20 years |
| 2 per cent equity interest in BCL by BTVL | March 31, 2001 | 349,507 | 20 years |
| 30.2 per cent equity interest in BTNL by BTVL | March 31, 2001 | 511,991 | 20 years |
| An effective equity interest of 13 per cent in BML by BTVL | March 31, 2001 | 649,457 | 20 years |
| An effective equity interest of 20 per cent in BML by BTVL | March 31, 2001 | 4,877,868 | 20 years |
| An effective equity interest of 8.64 per cent in BML by BTVL | March 31, 2001 | 1,610,615 | 20 years |
| 3 per cent equity interest in BCL by BTVL | March 31, 2001 | 595,430 | 20 years |
| 9.22 per cent equity interest in BBTIL by BTPL | March 31, 2001 | 81,949 | 20 years |
| 39.78 per cent equity interest in BBTIL by BTPL | September 30, 2001 | 186,665 | 20 years |
| 49 per cent equity interest in BBTL by BTPL | September 30, 2001 | 203,621 | 20 years |
| 15 per cent equity interest in BTPL by BTVL | September 30, 2001 | 298,629 | 20 years |
| 100 per cent equity interest in BMBL by BCL | September 30, 2001 | 3,601,645 | 20 years |
| 49 per cent equity interest in Sky Cell by BCL | September 30, 2001 | 4,394,382 | 20 years |
| 44 per cent equity interest in BCL by BTVL | September 30, 2001 | 7,017,526 | 20 years |
| **Total** | | **28,187,219** | |
| Less: Adjustment for recognition of deferred tax asset | | (1,367,310) | |
| | | **26,819,909** | |

During the six-month period ended September 30, 2001, BML has significantly improved its performance resulting in consistent monthly cash profits, and accordingly, deferred tax asset of Rs 1,367,310 represented by carry forward depreciation benefits and timing differences with respect to licence fee treatment as of March 31, 2000 (the year of the acquisition and consolidation of BML) has been recognised in these financial statements. Resultantly, in accordance with IAS-12 - 'Accounting for Income Taxes' goodwill has been reduced by Rs 1,367,310 and the related accumulated amortisation of Rs 90,924 has been written-back in the current period.

**10(b) LICENCE ENTRY FEE**

Licence entry fee of Rs 6,907 million (March 31, 2001 – Rs Nil and March 31, 2000 – Rs Nil) comprises licence fee paid for providing CMTS in eight additional circles of Gujarat, Haryana, Kerela, Madhya Pradesh, Maharashtra, Mumbai, Tamil Nadu and Uttar Pradesh (West) and has been accounted for in accordance with the accounting policy disclosed in Note 2(o).

## 11. INCOME TAXES

Income-tax income/(expense):

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Restated)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| Current income-tax income/(expense) | - | (45,424) | (81,955) | (52,863) | (1,711) | (1,105) |
| Deferred tax income/(expense) due to increase in carry forward tax loss in the current year/ period | (25,235) | 100,948 | 520,185 | (76,373) | 10,860 | (1,594) |
| Deferred tax income/(expense) relating to the origination and reversal of temporary differences in the current year/ period | 130,702 | (11,766) | (356,976) | (27,075) | (7,453) | (566) |
| Deferred tax income/(expense) resulting from an increase/ (decrease) in tax rates | - | 36,520 | (35,703) | - | (745) | - |
| **Income-tax income/ (expense)** | **105,467** | **80,278** | **45,551** | **(156,311)** | **951** | **(3,265)** |

The tax-reporting year in India for income-tax purposes is from April 1 to March 31 each year. The effective tax rates applicable to the Group have decreased to 35.7 per cent during the period ended September 30, 2001 and the year ended March 31, 2001 from 38.5 per cent for the year ended March 31, 2000. The change has resulted in a decrease of Rs 35,703 in the deferred tax income for the year ended March 31, 2001. Further, the income-tax rate increased from 35 per cent in the year ended March 31, 1999 to 38.5 per cent in year ended March 31, 2000 resulting in a deferred tax income of Rs 36,520 for the year ended March 31, 2000.

The following is a reconciliation of the deferred tax income at the statutory tax rate under the Indian Income-tax Act, 1961 and the Company's effective tax rate:

| | **Year ended March 31, 1999** | **Year ended March 31, 2000** | **Year ended March 31, 2001** | **Six-month period ended September 30, 2001** | **Year ended March 31, 2001** | **Six-month period ended September 30, 2001** |
|---|---|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Restated)* | *(Unaudited)* |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| (Profit)/ loss before taxes and minority interest | 561,630 | 797,016 | 1,102,025 | (180,629) | 23,007 | (3,771) |
| Adjustment for BML losses not eligible for carry forward under Indian Income-tax Act, 1961 | - | (26,793) | - | - | - | - |
| Adjustment for deferred tax asset, not recognised [See Note (a) below] | (236,868) | (358,456) | (555,794) | (508,404) | (11,603) | (10,614) |
| Adjusted net (profit)/ loss before tax | 324,762 | 411,767 | 546,231 | (689,033) | 11,404 | (14,385) |
| Tax rate applied to pre-tax income before non recurring items at the statutory tax rate of 35.7 per cent (March 31, 2001 – 35.7 per cent, March 31, 2000 – 38.5 per cent and March 31, 1999 - 35 per cent) | 113,667 | 158,530 | 195,004 | (245,985) | 4,072 | (5,135) |
| Increase/(decrease) in deferred tax asset due to change in the income-tax rate | - | 36,520 | (35,703) | - | (745) | - |
| Adjustment for expensing deferred tax asset recognised in earlier years [See Note (a) & (c) below] | - | - | - | (62,388) | - | (1,303) |
| Permanent differences on account of tax impact of : | | | | | | |
| Amortisation of goodwill | (1,951) | (25,928) | (138,342) | (109,950) | (2,888) | (2,295) |
| Amortisation of ESOP costs | - | - | - | (4,513) | - | (94) |
| Fair valuation of assets and liabilities under IAS 39 | - | - | - | 22,776 | - | 475 |
| Loss of associate company | (8,061) | (43,706) | (110,643) | (15,343) | (2,311) | (321) |
| Tax free income | 1,812 | 286 | 643 | - | 13 | - |
| Tax preferences [See Note (b) below] | - | - | 216,547 | 311,955 | 4,520 | 6,513 |
| **Deferred tax income/(expense)** | **105,467** | **125,702** | **127,506** | **(103,448)** | **2,661** | **(2,160)** |
| Current income-tax income/(expense) [See Note (d) below] | - | (45,424) | (81,955) | (52,863) | (1,710) | (1,105) |
| **Income-tax income** | **105,467** | **80,278** | **45,551** | **(156,311)** | **951** | **(3,265)** |
| The deferred tax asset comprises: | | | | | | |
| Cumulative temporary differences | 150,967 | 139,201 | (217,775) | (244,850) | (4,546) | (5,112) |
| Carry forward tax losses | 261,931 | 362,879 | 883,064 | 806,691 | 18,436 | 16,842 |
| Deferred tax (expense)/income resulting from change in tax rates | (47,692) | (11,172) | (46,875) | (46,875) | (979) | (979) |
| **Deferred tax asset** | **365,206** | **490,908** | **618,414** | **514,966** | **12,911** | **10,751** |
| Adjustment for recognition of deferred tax asset on BML acquisition | - | - | - | 1,367,310 | - | 28,545 |
| **Closing deferred tax asset** | **365,206** | **490,908** | **618,414** | **1,882,276** | **12,911** | **39,296** |

**Notes:**

(a) The Group has recognised deferred tax asset relating to its existing projects for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax asset relating to certain other projects, which are in the construction phase and nascent stages of operations, has not been recognised. The Group would review the recoverability of the unused tax credit for these projects in the subsequent years.

(b) During the year ended March 31, 2001, BCL had availed of benefits under Section 80IA of the Indian Income-tax Act, 1961 (100 per cent tax holiday for 5 years and 30 per cent tax benefit thereafter for 5 years, starting from and including the year ended March 31, 2001) and consequently the effect on the deferred tax asset has since been reflected as ‘Impact of tax preferences’. However, the Group has continued to carry the closing deferred tax asset of Rs 151,565 as of March 31, 2001 in the books of account of BCL as it is of the opinion that, inspite of the launch of proposed cellular operations in the eight new circles, BCL would have sufficient taxable profit in future against which this asset can be utilised.

(c) During the six-month period ended September 30, 2001, BML has significantly improved its performance resulting in consistent monthly cash profits. Accordingly, deferred tax asset of Rs 1,367,310, which was not recognised earlier at the time of acquisition of BML by BTVL, has now been recognised and adjusted from the gross carrying amount of goodwill, in accordance with IAS 22. Further, the related goodwill amortisation of Rs 90,924 till September 30, 2001 has been written back and a deferred tax expense has been recognised for the same amount.

(d) Current Income-tax expense primarily represents Minimum Alternative Tax payable by the Group under the Indian Income-tax Act, 1961. The benefit of this charge is not available to the Group, since, it essentially pertains to BCL, wherein the Group has already opted for a tax holiday benefit under section 80IA.

The significant components and classification of deferred tax asset and liability on account of temporary differences are as follows:

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| **Deferred tax asset** | | | | | | |
| Assets impairment | - | 64,947 | - | - | - | - |
| Allowances for doubtful debts | 32,980 | - | 68,087 | 30,347 | 1,421 | 633 |
| Licence fees | 196,769 | 109,998 | - | 59,023 | - | 1,232 |
| Software upgradation cost | - | 29,007 | 4,397 | - | 92 | - |
| Foreign exchange fluctuations | 6,736 | 10,740 | 6,711 | 3,762 | 141 | 79 |
| Expense accruals | | 10,972 | - | - | - | - |
| Write off of web sites development costs and scrap | - | - | - | 379 | - | 8 |
| Other temporary differences | - | 11,674 | 838 | - | 17 | - |
| | **236,485** | **237,338** | **80,033** | **93,511** | **1,671** | **1,952** |
| **Deferred tax liability** | | | | | | |
| Depreciation | 83,056 | 148,673 | 282,660 | 111,614 | 5,901 | 2,330 |
| Bad debts written off, net | - | 98,299 | - | - | - | - |
| Expenditure incurred during construction period | 15,244 | 4,140 | - | - | - | - |
| Licence fees | - | - | 148,758 | 1,484 | 3,106 | 31 |
| Debt origination costs, net of amortisation | 6,590 | (2,008) | 5,591 | 7,241 | 117 | 151 |
| Other temporary differences | 893 | - | - | 247 | - | 6 |
| | **105,783** | **249,104** | **437,009** | **120,586** | **9,124** | **2,518** |
| **Net deferred tax asset/(liability) on account of temporary differences** | **130,702** | **(11,766)** | **(356,976)** | **(27,075)** | **(7,453)** | **(566)** |

## 12. OTHER NON-CURRENT ASSETS

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | (Restated) | (Restated) | (Unaudited) | (Unaudited) |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Security deposits | 138,418 | 230,599 | 303,068 | 6,327 |
| Less: Adjustment for re-measurement at amortised cost [See Note (a), below] | - | - | (52,370) | (1,093) |
| Long term investment in ETL | 300,000 | 300,000 | 300,000 | 6,263 |
| Less: Provision for diminution in the value of investments [See Note 3(b)] | (300,000) | (300,000) | (300,000) | (6,263) |
| Others | 125,332 | 28,531 | 26,489 | 553 |
| | **263,750** | **259,130** | **277,187** | **5,787** |

a) Effective April 1, 2001, security deposits have been remeasured at the amortised cost based on effective interest method as defined under IAS 39, Financial Instruments: Recognition and Measurement, thereby recognising a total amortisation of Rs 52,370 at September 30, 2001.

## 13. SHORT-TERM BORROWINGS

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | (Restated) | (Restated) | (Unaudited) | (Unaudited) |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Secured | - | - | 873,409 | 18,234 |
| Unsecured | 1,229,259 | 1,006,736 | 2,256,410 | 47,107 |
| | **1,229,259** | **1,006,736** | **3,129,819** | **65,341** |

(a) Secured short-term borrowings as at September 30, 2001 comprise:

- 11.7 per cent short-term loan of Rs 373,409 (March 31, 2001 – Rs Nil and March 31, 2000 – Rs Nil) from ABN Amro Bank. The loan is secured by a charge on inventories and receivables of SkyCell;
- 10 per cent short-term loan of Rs 250,000 (March 31, 2001 – Rs Nil and March 31, 2000 – Rs Nil) from IDBI Bank Limited. The loan is secured by a subservient charge on the stocks and book debts of BCL;
- 10 per cent short-term loan of Rs 170,000 (March 31, 2001 – Rs Nil and March 31, 2000 – Rs Nil) from IDBI Bank Limited. The loan is secured by a subservient charge on the stocks and book debts of BML; and
- 10 per cent short term loan of Rs 80,000 (March 31, 2001 – Rs Nil and March 31, 2000 – Rs Nil) from IDBI Bank Limited. The loan is secured by a subservient charge on the stocks and book debts of BTNL.

(b) Unsecured short-term borrowings as at September 30, 2001 comprise:

- 10.3 per cent short-term loan of Rs 766,995 (March 31, 2001 - 766,995 and March 31, 2000 - Rs Nil) from GE Capital Services India counter guaranteed by the minority shareholder of BML. The loan is to refinance the 12.5 per cent non-convertible debentures of Rs 766,995 issued to Deutsche Bank on March 31, 2000, which were repaid on March 27, 2001;
- 10.75 per cent inter-corporate deposits of Rs 1,000,000 (March 31, 2001 – Rs Nil and March 31, 2000 – Rs Nil) from HDFC Limited;
- 8 per cent inter-corporate deposit of Rs 29,076 (March 31, 2001 – Rs Nil and March 31, 2000 – Rs Nil) from the Parent;
- book overdraft of Rs 373,297 (March 31, 2001 - Rs 234,288 and March 31, 2000 - Rs 163,042); and
- other short-term borrowings of 87,042 (March 31, 2001 - Rs 5,453 and March 31, 2000 - Rs 52).

## 14. EQUIPMENT SUPPLY PAYABLES

Equipment supply payables represent amounts payable to vendors towards purchase of telecommunication equipment. The business segment-wise break-up of the amounts payable is presented below:

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | (Restated) | (Restated) | (Unaudited) | (Unaudited) |
| | Thousands of Indian Rupees | | | Thousands of US Dollars (Restated) |
| Cellular | 820,005 | 1,453,054 | 1,533,486 | 32,014 |
| Access | 708,991 | 673,138 | 500,615 | 10,451 |
| Long distance | - | 761,632 | 1,549,224 | 32,343 |
| Broadband | - | 14,785 | 9,772 | 204 |
| | **1,528,996** | **2,902,609** | **3,593,097** | **75,012** |

## 15. ACCRUED EMPLOYEE COSTS AND EMPLOYEE BENEFIT OBLIGATIONS

(a) Accrued employee costs

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | (Restated) | (Restated) | (Unaudited) | (Unaudited) |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Salaries payable | 14,635 | 53,626 | 16,416 | 343 |
| Bonuses payable | 25,582 | 45,870 | 59,312 | 1,238 |
| Contribution to employee benefit funds | 3,202 | 7,121 | 8,019 | 167 |
| Vacation pay benefits | 16,433 | 23,083 | 37,494 | 783 |
| Others | 1,886 | 6,073 | 4,387 | 92 |
| | **61,738** | **135,773** | **125,628** | **2,623** |

(b) Employee benefit obligations

(i) The contribution to the employees' provident fund and employees' state insurance plans aggregated Rs 25,531 for the six-month period ended September 30, 2001 and Rs 33,271 and Rs 19,930 for the years ended March 31, 2001 and 2000, respectively.

(ii) Average number of employees

| | March 31, 1999 | March 31, 2000 | March 31, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) |
| Average number of employees | 911 | 1,397 | 2,144 | 3,025 |

(iii) The Board of Directors of the Company had initially approved an Employee Stock Option Plan ('ESOP') for the Company and its subsidiaries, on February 27, 2001, with the options being granted on October 1, 2000. However, on September 21, 2001, the Board of Directors of the Company has deferred the grant date of the options to April 1, 2001. As per the ESOP, each selected employee (selection based on the performance and number of years of service) would be entitled to a specified value of options determined on the basis of their cost-to-company. The employee would be eligible to subscribe for 'n' number of equity shares of the Company at a discount of 50 per cent of the IPO price, 'n' being determined based on the specified value of ESOPs granted divided by the IPO price.

The vesting of the options would be over a period of 42 to 48 months depending on the date of the grant. The Group has made an aggregate grant of Rs 557,938 to 1,126 employees as of September 30, 2001.

The Group has allotted 1,440,000 shares of BTVL to the Bharti Tele-Ventures Employees' Welfare Trust to implement the ESOP scheme.

## 16. OTHER CURRENT LIABILITIES

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | (Restated) | (Restated) | (Unaudited) | (Unaudited) |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Payable to minority shareholders | 559,714 | 306,000 | 306,000 | 6,388 |
| Taxes payable | 67,375 | 67,003 | 201,953 | 4,216 |
| Accrued expenses | 170,359 | 331,496 | 906,964 | 18,935 |
| Interest accrued but not due | 54,336 | 99,794 | 199,863 | 4,173 |
| Accounts payable | 125,717 | 157,954 | 617,604 | 12,894 |
| Network costs payable | 32,824 | 238,711 | 144,634 | 3,019 |
| Others | 975,491 | 1,279,332 | 328,877 | 6,866 |
| | **1,985,816** | **2,480,290** | **2,705,895** | **56,491** |

(a) At September 30, 2001, Rs 306,000 (March 31, 2001-Rs 306,000 and March 31, 2000 - Rs 559,714) has been provided towards charges for technical services rendered by the minority shareholders of BML and is reflected as part of payables to minority shareholders. Rs 370,193 (March 31, 2001-Rs 370,193 and March 31, 2000 - Rs 253,714) representing BML's erstwhile shareholders' technical and other services, has been assigned to BTVL and has been set-off in the consolidation process [See Note 3(a)(ii)].

(b) 'Others' in the note above include Rs 61,700 (March 31, 2001 - Rs 215,993 and March 31, 2000 - Rs Nil), refundable to subscribers as per TRAI tariff order of January 25, 2001 ('the order'). The order directs all the cellular operators to refund the monthly subscription and airtime levied by the companies in excess of the revised tariff scheme, effective from August 1, 1999. The Group has disputed the basis of computing the refund and has filed an appeal in the Delhi High Court. Pending determination of the appeal, as per the directions of the court, the disputed amount has been deposited with the Appellate Tribunal [See Note 4]. The Group has recognised the entire liability in the year ended March 31, 2001.

(c) 'Others' in the note above also included Rs 800,000 as of March 31, 2001 (March 31, 2000 - Rs 800,000) recorded by BML towards the liabilities related to the Punjab licence [See Note 3(b)], which has subsequently been paid by September 21, 2001.

## 17. LONG TERM DEBTS

| | March 31, 2000 | March 31, 2001 | September 30, 2001 | September 30, 2001 |
|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Unaudited)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| **Secured** | | | | |
| Term loans: | | | | |
| 12.04 per cent Citibank loan | 812,235 | 731,011 | 731,011 | 15,261 |
| 12.75 per cent Deutsche Bank loan | 340,000 | 340,000 | 340,000 | 7,098 |
| 19.9 per cent Industrial Development Bank of India ('IDBI') loan | 3,000 | 2,000 | 2,000 | 42 |
| 18 per cent IDBI loan | 3,000 | 2,000 | 2,000 | 42 |
| Non convertible debentures ('NCDs') | | | | |
| 14 per cent issued to Infrastructure Development Finance Company Limited ('IDFC') | 2,750,000 | 750,000 | 750,000 | 15,658 |
| 15 per cent issued to IDBI | 1,250,000 | 1,250,000 | 1,250,000 | 26,096 |
| 14 per cent issued to IDBI | - | 750,000 | 750,000 | 15,658 |
| 13.5 per cent issued to IDBI | 1,000,000 | 833,333 | 666,666 | 13,918 |
| 13.25 per cent issued to Standard Chartered Grindlays Bank ('SC Grindlays') | 750,000 | 750,000 | 750,000 | 15,658 |
| 13.50 per cent issued to IDFC | - | 2,000,000 | 2,000,000 | 41,754 |
| 13 per cent Loan from Essar Investments Limited | 300,000 | 300,000 | 300,000 | 6,263 |
| Loan from Hire Purchase Companies | 288 | 124 | - | |
| 10.55 per cent issued to corporates and FIs | - | - | 548,940 | 11,460 |
| 10.90 per cent issued to corporates and FIs | - | - | 900,000 | 18,789 |
| 11.45 per cent issued to corporates and FIs | - | - | 600,000 | 12,526 |
| ICICI dollar and rupee term loans | - | - | 470,239 | 9,817 |
| | 7,208,523 | 7,708,468 | 10,060,856 | 210,040 |
| Less: Current portion | (83,223) | (497,904) | (626,161) | (13,073) |
| Less: Debt origination costs | (28,063) | (50,011) | (58,460) | (1,220) |
| | 7,097,237 | 7,160,553 | 9,376,235 | 195,747 |
| **Unsecured** | 21,624 | 49,353 | 517,016 | 10,793 |
| | **7,118,861** | **7,209,906** | **9,893,251** | **206,540** |

(a) In October 1999, BML entered into a series of agreements with Citibank for a term loan of Rs 1,100,000 which is repayable in ten half yearly instalments commencing from September 2000. The term loan is secured by a first charge ranking *pari passu* on all assets of BML, both present and future, excluding book debts. The Group had drawn Rs 812,235 against this facility as at March 31, 2000 and repaid Rs Nil during the year six-month period ended September 30, 2001 (March 31, 2001 - Rs 81,224 and March 31, 2000 – Rs Nil).

(b) In March 1998, BCL entered into an agreement with Deutsche Bank for a term loan of Rs 375,000 of which Rs 35,000 was repaid in 1999. The balance facility of Rs 340,000 is repayable in four equal half yearly installments commencing from October 2002. The loan is secured by (1) a *pari passu* charge on BCL's properties, both present and future, excluding book debts, subject to the prior charge of inventories and book debts in favour of BCL's bankers for working capital; (2) assignment of its CMTS licence to Deutsche Bank and till such time the licences are not assigned, BTVL would deposit its shareholding in BCL with Deutsche Bank; (3) Undertaking for non-dilution of shareholdings by BCL shareholders without prior permission of Deutsche Bank; and (4) an undertaking from BTVL for non-disposal of its shareholding in BCL . The Group has drawn Rs 340,000 against this facility as at September 30, 2001 (March 31, 2001 – Rs.340,000 and March 31, 2001 - Rs. 340,000).

(c) In February 1996 and in May 1997, BCL entered into two separate agreements with IDBI for a term loan aggregating to Rs 1,050,000 later rescheduled to Rs 10,000 repayable in five equal annual instalments commencing April 1999. The loan is secured by a *pari passu* charge on BCL's properties, both present and future, excluding book debts, subject to the prior charge of inventories and book debts in favour of BCL's bankers for working capital. BCL has drawn Rs 10,000 as at September 30, 2001 (March 31, 2001 – Rs. 10,000 and March 31, 2000 - Rs. 10,000) against this facility and repaid Rs 6,000 as of September 30, 2001 (March 31, 2001 – Rs. 6,000 and March 31, 2000 - Rs. 4,000).

(d) In December 1999 and March 2000, BTVL placed non-convertible debentures amounting to Rs 2,000,000 with IDFC to be redeemed within two years of the respective disbursement dates. The debentures were secured by (i) a first mortgage and charge of all immovable properties in Maharashtra, present and future; (ii) pledge of at least 51 per cent of BTVL's shares by BTL and a negative lien on the balance shares held by BTL; (iii) pledge of all shares acquired by BTVL through its acquisition of BML and proposed acquisition of SkyCell; (iv) lien on future cash flows receivable by BTVL on account of future issue of shares and lien on all dividend income receivable by BTVL. The Company redeemed all the debentures on October 3, 2000.

(e) In March 1999, BTNL placed non-convertible debentures amounting to Rs 700,000 with IDFC, redeemable in thirty-two equal quarterly installments commencing from October 2002. The debentures are secured by (i) a first mortgage and charge on all immovable property of

BTNL; (ii) first charge by way of hypothecation of all moveable plant and machinery and book debts of BTNL; (iii) pledge of 51 per cent equity share capital of BTNL, thereby BTVL pledged 102 million shares of BTNL in March 1999, and an undertaking on non-disposal of shares by BTVL. In September 1999 and October 1999, additional debentures of Rs 40,000 and Rs 10,000, respectively, were placed by BTNL with IDFC on the same terms and conditions as the previous placements.

(g) In March 1999, BTNL placed non-convertible debentures amounting to Rs 1,000,000 with IDBI, redeemable in twenty-eight equal quarterly instalments commencing from October 2002. The debentures are secured by (i) a first mortgage and charge on all immovable property of BTNL; (ii) first charge by way of hypothecation of all moveable plant and machinery and book debts of BTNL; (iii) pledge of 51 per cent equity share capital of BTNL, thereby BTVL pledged 102 million shares of BTNL in March 1999, and an undertaking on non-disposal of shares by BTVL. In September 1999, additional debentures of Rs 250,000 were placed by BTNL with IDBI on the same terms and conditions as the previous placements.

(g) In April 2000, IDBI entered into an agreement with BTNL agreeing to subscribe to non convertible debentures amounting to Rs 1,250,000. Further to this agreement on June 12, 2000 and on August 25, 2000, BTNL placed debentures amounting to Rs 500,000 and Rs 250,000, redeemable in twenty-eight equal quarterly instalments commencing from October 1, 2002. The debentures are secured by (i) a first mortgage and charge on all immovable property of BTNL; (ii) first charge on all movable properties of BTNL; (iii) assignment in favour of IDFC of all rights in project documents and all insurance contracts; (iv) pledge of 51 per cent equity share capital of BTNL, thereby BTVL pledged 102 million shares of BTNL in April 2000, and an undertaking on non-disposal of shares by BTVL; (v) pledge of 26 per cent shares of BTNL by the promoters upon execution of the tripartite agreement.

(h) In March 1998, IDBI advanced Rs 1,000,000 to BCL as debenture application money, against which non-convertible debentures were placed in the subsequent financial year. The debentures are redeemable in six equal half-yearly instalments commencing April 2001. The debentures are secured by (i) a *pari passu* charge on BCL's properties, both present and future, excluding book debts, subject to the prior charge of inventories and book debts in favour of BCL's bankers for working capital; (ii) pledge of BCL's shareholding in Welldone; (iii) corporate guarantee from BTVL and BTL; and (iii) an undertaking for non-disposal of BCL's holdings by BTVL. The Company redeemed the first installment of Rs 166,667 on March 31, 2001 and the next instalment of Rs 166,667 on September 30, 2001.

(i) In April 1998, BCL placed non-convertible debentures amounting to Rs 750,000 with SC Grindlays (formerly known as ANZ Grindlays Bank Ltd.), redeemable in three equal half-yearly installments commencing April 2003. The debentures are secured by (i) a pari passu charge on BCL's properties, both present and future, excluding book debts, subject to the prior charge of inventories and book debts in favour of BCL's bankers for working capital; (ii) corporate guarantees from BTVL and BTL.

(j) In December 2000, BML placed non-convertible debentures amounting to Rs 2,000,000 with IDFC, redeemable in 26 quarterly instalments commencing from October 2003. The debentures are secured by (i) a first mortgage and charge on immovable property of BML (ii) a first charge by way of hypothecation on all moveable property of BML; (iii) a first charge by way of hypothecation on all intangible assets of the borrower; (iv) all operations cash flows, revenues/ receivables from the project; (v) pledge of 281 million shares held by SCHL in BML.

(k) In September 1996, Essar advanced a sum of Rs 300,000 for a period of three years to BML to subscribe to the entire equity capital of ETL. The loan is secured by a pledge of shares of ETL [See Note 3(b)]. Annual interest charges have been waived pursuant to specific waivers received from Essar.

(l) In June 2001, BML placed three series of non-convertible debentures with financial institutions and corporates amounting to Rs 600,000, Rs 900,000 and Rs 600,000 respectively. Series 1 debentures carry an interest rate of 10.55 per cent and are redeemable in four equal half- yearly installments commencing December 2004. Series II debentures carry an interest rate of 10.9 per cent per annum payable semi-annually and are redeemable in six equal half-yearly installments commencing December 2006. Series III debentures carry an interest rate of 11.45 per cent per annum payable semi-annually and are redeemable in four equal half-yearly installments commencing December 2009. The debentures are partially guaranteed by International Finance Corporation, Washington.

The debentures are secured by: (i) first mortgage and charge on all or substantially all the immovable properties of BML both present and future. (ii) first mortgage and charge on all the tangible and intangible movable assets of BML other than the optic fibre backbone. (iii) pledge of the shares of BML owned by SC Cellular representing upto 51 per cent of the share capital.

Rs 51,060 of 10.55 per cent Series I debentures have been subscribed to by BTVL, and accordingly have been eliminated in the consolidation process.

(m) On February 14, 1996 SkyCell entered into an agreement with ICICI for a loan of Rs 146.5 million for operating its cellular operations in the metropolitan area of Chennai. The principal amount of the loan was to be repaid by Bharti Mobinet on and from October 15, 1997 to July 15, 2003. The repayment schedule has been amended and the amended repayment schedule dated July 9, 1998 provides for 20 quarterly payments to be made commencing April 15, 2000 and ending as on January 15, 2005. As of September 30, 2001, Rs 102,550 was outstanding under this loan. Subject to prior charges created or to be created in favour of Skycell bankers for securing borrowings for working capital loans, this loan is secured by a first mortgage and charge on all present and future movable and immovable properties of Skycell. The mortgage and charge is to rank pari passu with all mortgages and charges created in favour of ICICI's loans (described below). In addition, Crompton Greaves Limited ("Crompton Greaves"), DSS Enterprises Private Limited ("DSS"), Bellsouth International Inc. ("Bellsouth") and Millicom International Cellular S.A. Limited ("Millicom") had undertaken not to dispose their shareholding in Skycell without the prior consent of ICICI. The Company , on acquisition of shares from Crompton Greaves, Millicom and Bellsouth, has replaced the non disposal undertaking given to ICICI by Crompton Greaves, Bellsouth and Millicom. The loan agreement provides that on confirmed defaults by Skycell in the payment of two consecutive installments of principal or interest (or any combination thereof), the lender will have the option to convert, on one or more occasions, the outstanding amount of the loan into fully paid up equity shares, at par.

(n) On February 14, 1996 SkyCell entered into an agreement with ICICI for a loan of US$ 3 million to fund its cellular operations in Chennai and adjoining areas. The principal amount of the loan was to be repaid by Skycell on and from October 10, 1997 to April 10, 2003. The repayment schedule has been amended and the amended repayment schedule dated July 9, 1998 provides for the following:

(i) SCFRN loan

- Foreign currency portion of US$ 1.5 million, repayable in six half yearly installments beginning April 10, 2000 and ending October 10, 2002. The total outstanding at September 30, 2001 was US$ 750, equivalent to Rs 35,925
- Rupee tied portion of US$ 0.5 million, repayable in four quarterly instalments beginning July 10, 2004 and ending April 10, 2005. The total outstanding at September 30, 2001 was Rs 19,440

(ii) ICICI dollar loan of US$ 1 million repayable in nine quarterly installments beginning May 15, 2003 and ending May 5, 2005. The total outstanding at September 30, 2001 was US$ 100,equivalent to Rs 47,900

Subject to prior charges created or to be created in favour of SkyCell's bankers for securing borrowings for working capital loans, the loan is secured by a first mortgage and charge on all present and future movable and immovable properties of SkyCell. The mortgage and charge is to rank *pari passu* with all mortgages and charges created in favour of ICICI's rupee loan and ICICI's loans (described below). In addition, Crompton Greaves, DS, Bellsouth and Millicom had undertaken not to dispose their shareholding in Skycell without the prior consent of the ICICI. The Company, on acquisition of shares from Crompton Greaves, Millicom and Bellsouth, has replaced the non disposal undertaking given to ICICI by Crompton Greaves, Bellsouth and Millicom. The loan agreement also provides that, in case of continual default in the payment of two consecutive instalments of principal or interest (or any combination thereof), ICICI will have the option to convert the outstanding amount of the loan into fully paid up equity shares of Skycell at par.

(o) On February 8, 1996 SkyCell entered into an agreement with ICICI for a loan of Rs 249.95 million bearing interest at the rate of 3 per cent above the minimum lending rate of ICICI plus applicable interest tax, payable quarterly for funding its cellular operations in Chennai. The interest rate is to be reset on expiry of every three years from the date of the first disbursement. The principal amount of the loan was to be repaid by Skycell on and from October 15, 1997 to July 15, 2003. The repayment schedule was amended in July 1998, and the loan is repayable in quarterly installments commencing April 15, 2000 and ending January 15, 2005. As of September 30, 2001 Rs 1,137,273 was outstanding under this loan. The loan agreement also provides that, in case of continual default in the payment of two consecutive installments of principal or interest (or any combination thereof), ICICI will have the option to convert the outstanding amount of the loan into fully paid up equity shares of Skycell at par. Subject to prior charges created or to be created in favour of SkyCell's bankers for securing borrowings for working capital loans, the loan is secured by a first mortgage and charge on all present and future movable and immovable properties of SkyCell. The mortgage and charge is to rank pari passu with all mortgages and charges created in favour of ICICI's foreign currency loan and ICICI's loans (described below). In addition, Crompton Greaves, DSS, Bellsouth and Millicom had undertaken not to dispose their shareholding in Skycell without the ICICI. The Company, on acquisition of shares from Crompton Greaves, Millicom and Bellsouth, has replaced the non disposal undertaking given to ICICI by Crompton Greaves, Bellsouth and Millicom.

(p) On February 8, 1996, SkyCell entered into an agreement with ICICI for a loan of US$ 3 million at the floating rate of 3.5 per cent above US LIBOR, payable quarterly for its cellular operations in the metropolitan area of Chennai. The principal amount of the loan was to be repaid by Skycell on and from September 29, 1997 to June 29, 2002. The repayment schedule has been amended and the amended repayment schedule dated July 9, 1998 is as follows :

(i) Foreign currency portion

- US$ 1,093, first installment being payable on September 29, 1997 and the balance thereafter in nine quarterly instalments commencing June 29, 2000 and ending June 29, 2002. The total outstanding at September 30, 2001 was US$ 328, equivalent to Rs 15,700
- US$ 333, repayable in seven quarterly installments beginning May 26, 2000 and ending November 26, 2001. The total outstanding at September 30, 2001 was US$ 48, equivalent to Rs 2,281

(ii) Rupee tied portion

- US$ 328 repayable in three quarterly installments beginning December 29, 2003 and ending June 29, 2004. The total outstanding at September 30, 2001 was US$328, equivalent to Rs 15,670
- US$ 143 repayable in three quarterly installments beginning February 26, 2003 and ending August 26, 2003. The total outstanding at September 30, 2001 was US$ 143, equivalent to Rs 6,844

(iii) ICICI dollar line portion of US$ 1,098 repayable in fourteen quarterly installments beginning February 15, 2002 and ending May 15, 2005. The total outstanding at September 30, 2001 was US$ 1,020, equivalent to Rs 48,845

Subject to prior charges created or to be created in favour of SkyCell's bankers for securing borrowings for working capital loans, the loan is secured by a first mortgage and charge on all present and future movable and immovable properties of SkyCell. The mortgage and charge is to rank pari passu with all mortgages and charges created in favour of ICICI's rupee loan and SCICI's loans. In addition, Crompton Greaves, DSS, Bellsouth and Millicom had undertaken not to dispose their shareholding in Skycell without the ICICI. The Company, on acquisition of shares from Crompton Greaves, Millicom and Bellsouth, has replaced the non disposal undertaking given to ICICI by Crompton Greaves, Bellsouth and Millicom. The loan agreement also provides that, in case of continual default in the payment of two consecutive installments of principal or interest (or any combination thereof), ICICI will have the option to convert the outstanding amount of the loan into fully paid up equity shares of Skycell at par.

Majority of the above mentioned loans have a general covenant requiring the Group not to exceed a debt to equity ratio of 1.25:1 and maintain a minimum debt service coverage ratio 1.05:1.

The principal payments with respect to secured loans for the period ended September 30, 2001 are as follows:

| | |
|---|---|
| September 30, 2002 | 626,161 |
| September 30, 2003 | 1,737,272 |
| September 30, 2004 | 1,650,358 |
| September 30, 2005 | 1,111,048 |
| September 30, 2006 | 953,934 |
| Thereafter | 3,982,083 |
| **Total principal repayments** | **10,060,856** |

## 18. NON-INTEREST BEARING SECURITY DEPOSITS

| | March 31, 2000 (Restated) | March 31, 2001 (Restated) | September 30, 2001 (Unaudited) | September 30, 2001 (Unaudited) |
|---|---|---|---|---|
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Security deposits | 803,402 | 1,251,843 | 1,627,708 | 33,981 |
| Less: Adjustment for re-measurement at amortised cost [See Note below] | - | - | (360,335) | (7,522) |
| | **803,402** | **1,251,843** | **1,267,373** | **26,459** |

Security deposits received from subscribers have been remeasured at the amortised cost based on effective interest method as defined under IAS 39, Financial Instruments: Recognition and Measurement, thereby recognising a total amortisation of Rs 360,335 at September 30, 2001.

## 19. MINORITY INTERESTS

| | March 31, 2000 (Restated) | March 31, 2001 (Restated) | September 30, 2001 (Unaudited) | September 30, 2001 (Unaudited) |
|---|---|---|---|---|
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Balance, beginning of the year | 730,646 | (404,836) | 956,665 | 19,972 |
| Contribution by minority shareholders | 362,850 | 300,000 | - | - |
| Effect of change in ownership | (1,101,890) | 960,011 | (881,298) | (18,400) |
| Others | (230,000) | (50,000) | - | - |
| Share of net profit/(loss) of subsidiaries | (166,442) | 151,490 | 182,770 | 3,816 |
| **Balance, end of year** | **(404,836)** | **956,665** | **258,137** | **5,388** |

(a) As discussed in Note 3(a)(i) earlier, the minority shareholder's share of net assets in BML exceeded its contribution. Accordingly, the losses of Rs 2,697,905 as of November 30, 1999, reduced by share capital and advances against equity of Rs 1,931,000 were included as a cost of acquisition of the 32.36 per cent in BML. The minority shareholder's share of subsequent losses of Rs 15,968 (for the four-month period, from the date of acquisition to March 31, 2000) and Rs 17,078 (for the year ended March 31, 2001) has also been absorbed by the Company. In the current period, the profits of Rs 170,713 arising from BML have been first allocated to BTVL to the extent of minority loss absorbed earlier and, accordingly, no part of the current period profit of BML has been allocated to the minority.

(b) As discussed in Note 3(f) earlier, the minority shareholder's share of net assets in SkyCell exceeded its contribution. Accordingly, the losses of Rs 193,944 as of September 13, 2001, reduced by share capital and advances against equity of Rs 65,331 were included as a cost of acquisition of the 49 per cent in SkyCell. The profits in the future from SkyCell would be fully allocated to BTVL till such time the additional losses borne by BCL are recouped.

## 20. SHARE CAPITAL

| | March 31, 2000 (Restated) | March 31, 2001 (Restated) | September 30, 2001 (Unaudited) | September 30, 2001 (Unaudited) |
|---|---|---|---|---|
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Authorised - | | | | |
| 250,000,000 (March 31, 2001 - 110,000,000 and March 31, 2000 – 80,000,000) equity shares of Rs 10 each | 800,000 | 1,100,000 | 2,500,000 | 52,192 |
| Issued, subscribed and fully paid-up - | | | | |
| 1,668,030,067 (March 31, 2001 - 108,905,644, and March 31, 2000 – 65,790,757) equity shares of Rs 10 each | 657,907 | 1,089,056 | 16,680,301 | 348,232 |

Of the above, at September 30, 2001, 1,516,390,970 equity shares (March 31, 2001 - Rs Nil and March 31, 2000 – Rs Nil) are issued as bonus shares through capitalisation of share premium [See Statement of Changes in Equity]. Also, the above includes equivalent shares of the Company reflected as issued equity shares to BTL with respect to the presentation of consolidated results of the Group with BTPL for the prior periods, under 'Uniting of Interest' method, of 165,735 equity shares at March 31, 2000 and 2,670,584 equity shares at March 31, 2001 [See Statement of Changes in Equity].

## 21. SERVICE REVENUES

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Airtime charges | 1,210,387 | 1,768,945 | 2,909,190 | 2,065,229 | 60,735 | 43,115 |
| Call revenue | 79,889 | 402,617 | 854,001 | 602,408 | 17,829 | 12,576 |
| Access charges | 376,348 | 696,126 | 1,277,374 | 1,003,593 | 26,668 | 20,951 |
| Fixed monthly subscription | 321,655 | 767,924 | 1,878,944 | 1,170,073 | 39,226 | 24,427 |
| Broadband service revenues (internet and VSAT) | - | - | - | 134,777 | - | 2,814 |
| Other services (including activation and roaming revenues and VAS) | 303,733 | 707,340 | 1,542,188 | 1,216,365 | 32,195 | 25,396 |
| | **2,292,012** | **4,342,952** | **8,461,697** | **6,192,445** | **176,653** | **129,279** |

## 22. EQUIPMENT SALES

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Handset sales | 156,720 | 138,268 | 19,670 | 18,640 | 411 | 389 |
| VSAT equipment | - | - | - | 36,474 | - | 762 |
| | **156,720** | **138,268** | **19,670** | **55,114** | **411** | **1,151** |

## 23. ACCESS AND INTERCONNECTION COSTS

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Access and Interconnection costs | **429,838** | **786,827** | **1,482,477** | **1,141,030** | **30,950** | **23,821** |

## 24. NETWORK OPERATION COSTS

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Rent | 33,918 | 51,024 | 85,967 | 88,683 | 1,795 | 1,851 |
| Network maintenance | 97,467 | 262,529 | 241,290 | 150,214 | 5,038 | 3,136 |
| Lease line charges | 32,854 | 34,933 | 143,052 | 109,308 | 2,986 | 2,282 |
| Electricity | 26,426 | 66,665 | 122,996 | 88,436 | 2,568 | 1,846 |
| Insurance | 7,339 | 4,868 | 11,844 | 8,824 | 247 | 184 |
| Royalty and licence fees for spectrum usage | 29,581 | 63,582 | 307,298 | 210,580 | 6,415 | 4,396 |
| Others | 10,519 | 20,515 | 47,424 | 34,517 | 990 | 721 |
| | **238,104** | **504,116** | **959,871** | **690,562** | **20,039** | **14,416** |

## 25. EQUIPMENT COSTS

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Restated)* | *(Unaudited)* | *Restated)* | *(Unaudited)* |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Handset costs | 133,895 | 121,667 | 18,210 | 15,910 | 380 | 332 |
| VSAT costs | - | - | - | 35,690 | - | 745 |
| | **133,895** | **121,667** | **18,210** | **51,600** | **380** | **1,077** |

## 26. EMPLOYEE COSTS

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Restated)* | *(Unaudited)* | *Restated)* | *(Unaudited)* |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Salaries | 97,224 | 167,450 | 274,896 | 197,043 | 5,739 | 4,114 |
| Contribution to funds | 11,612 | 19,930 | 30,563 | 20,726 | 638 | 433 |
| Allowances | 60,427 | 133,598 | 259,892 | 150,397 | 5,425 | 3,140 |
| Bonuses | 3,697 | 7,907 | 24,122 | 104,609 | 503 | 2,184 |
| Retirement benefits, including vacation pay | 8,093 | 18,364 | 26,373 | 18,385 | 551 | 384 |
| Staff welfare | 10,362 | 18,635 | 34,513 | 19,012 | 721 | 397 |
| Others | 16,762 | 16,426 | 46,545 | 64,620 | 972 | 1,348 |
| | **208,177** | **382,310** | **696,904** | **574,792** | **14,549** | **12,000** |

'Others' in the note above include Rs 30,789 (March 31, 2001 - Rs Nil and March 31, 2000 – Rs Nil) representing the compensation cost, relating to the ESOP scheme.

## 27. OTHER OPERATING COSTS

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | *(Restated)* | *(Unaudited)* | *Restated)* | *(Unaudited)* |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Advertisements | 101,057 | 177,400 | 584,082 | 319,499 | 12,194 | 6,670 |
| Allowances for bad and doubtful debts | 96,888 | 98,462 | 163,861 | 161,485 | 3,421 | 3,372 |
| Promotions and sponsorships | 13,140 | 31,208 | 240,979 | 32,036 | 5,031 | 669 |
| Channel commission costs | 71,487 | 225,923 | 355,646 | 314,147 | 7,425 | 6,558 |
| Collection charges | 20,597 | 29,004 | 70,404 | 50,593 | 1,470 | 1,056 |
| Travel and conveyance | 42,585 | 50,425 | 98,832 | 57,338 | 2,063 | 1,197 |
| Legal and professional costs | 71,801 | 65,799 | 159,026 | 111,891 | 3,320 | 2,336 |
| Utilities | 54,450 | 72,847 | 124,818 | 95,556 | 2,606 | 1,995 |
| Sim card utilisation | 9,901 | 42,261 | 105,248 | 71,278 | 2,197 | 1,488 |
| Communication expenses | 26,821 | 33,161 | 62,400 | 37,832 | 1,303 | 790 |
| Management fees | 66,264 | 60,234 | 41,300 | - | 862 | - |
| Printing and stationery | 23,698 | 27,748 | 81,493 | 29,795 | 1,701 | 622 |
| Loss/(gain) on sale of property, plant and equipment | (1,479) | 18,179 | (126) | 4,175 | (3) | 87 |
| Liquidated damages | 50,000 | - | - | - | - | - |
| Others | 53,639 | 80,464 | 160,303 | 146,115 | 3,347 | 3,049 |
| | **700,849** | **1,013,115** | **2,248,266** | **1,431,740** | **46,937** | **29,889** |

## 28. FINANCE COSTS, net

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Interest income | 88,223 | 125,917 | 85,334 | 113,658 | 1,781 | 2,373 |
| Income on marketable securities | 40,669 | 200,220 | 298,314 | 207,981 | 6,228 | 4,342 |
| Gain on sale of marketable securities | 20,836 | 31,063 | 105,792 | 308,563 | 2,209 | 6,442 |
| Income from restatement of financial assets and liabilities | - | - | - | 63,797 | - | 1,332 |
| Total finance income | 149,728 | 357,200 | 489,440 | 693,999 | 10,218 | 14,489 |
| Interest on borrowings | 280,460 | 688,402 | 1,264,284 | 623,491 | 26,395 | 13,017 |
| Interest on delayed payment of Licence fee | - | 257,646 | - | 659 | | 14 |
| Interest – others | 24,778 | 6,361 | 58,425 | 9,154 | 1,220 | 191 |
| Debt extinguishment costs | - | - | 13,000 | - | 271 | - |
| Amortised loan origination costs | 1,478 | 4,702 | 25,147 | 27,643 | 525 | 577 |
| Exchange fluctuation loss/(gain), net | (5,668) | (12,260) | 19,539 | 45,033 | 408 | 940 |
| Other financial expenses | 18,149 | 45,027 | 67,793 | 46,849 | 1,415 | 978 |
| Total finance expense | 319,197 | 989,878 | 1,448,188 | 752,829 | 30,234 | 15,717 |
| **Net finance costs** | **169,469** | **632,678** | **958,748** | **58,830** | **20,016** | **1,228** |

## 29. REVENUE REFUND TO SUBSCRIBERS

Refund of revenue to subscribers [See Note 16(b)], comprises:

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Refund of revenue | **-** | **-** | **228,035** | **924** | **4,761** | **19** |

## 30. PRE-OPERATING COSTS

Pre-operating costs include salaries, travel, communication and other expenses relating to marketing and administration activities of the new licences prior to their commercial operations. The Group tracks these expenses for each of the licences under implementation.

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| Employee costs | - | - | 53,999 | 109,540 | 1,127 | 2,287 |
| Other expenses | - | - | 48,769 | 110,023 | 1,017 | 2,298 |
| | **-** | **-** | **102,768** | **219,563** | **2,144** | **4,585** |

## 31. RELATED PARTY TRANSACTIONS

The Group has entered into transactions (other than transactions relating to issue of equity share capital in BTVL which are explained in the Statement of movement in shareholders' equity) with the following related parties. Since most of these transactions are of a specialised nature, their pricing is either at cost or on a cost plus basis.

The significant related party transactions can be categorized as follows:

| Nature of Transaction | Year ended March 31, 1999 (Restated) | Year ended March 31, 2000 (Restated) | Year ended March 31, 2001 (Restated) | Six-month period ended September 30, 2001 (Unaudited) | Year ended March 31, 2001 Restated) | Six-month period ended September 30, 2001 (Unaudited) |
|---|---|---|---|---|---|---|
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| (a) BTL | | | | | | |
| *(The Parent)* | | | | | | |
| Telephone instruments purchased from BTL | 6,247 | 23,758 | - | - | - | - |
| Purchase of billing software from BTL | 36,000 | - | - | - | - | - |
| Advance to BTL for purchase of shares in 'BTPL' | - | - | 13,700 | - | 286 | - |
| Advance to BTL for acquisition of land | - | 49,809 | - | - | - | - |
| Management fees paid to BTL | 66,264 | 60,234 | 41,300 | - | 862 | - |
| Employee costs incurred on behalf of the Group and recovered | 26,524 | 35,572 | 36,494 | 50 | 762 | 1 |
| Guarantee fee paid to BTL | - | 7,328 | 8,048 | 1,097 | 168 | 23 |
| Fixed assets purchased from BTL | - | 57,796 | 72,140 | - | 1,506 | - |
| Deposit acquired by BTVL from BTL | - | 5,090 | - | - | - | - |
| Advertisement expenses incurred on behalf of the Group and recovered | - | 22,943 | 124,369 | - | 2,596 | - |
| Advertisement expenses paid by BTL | - | - | - | 1,275 | - | 27 |
| Intercorporate deposit given by Bharti Comtel | - | - | - | 10,575 | - | 221 |
| Interest on loan from group companies | - | - | - | 4,181 | - | 87 |
| Sale of internet services made to BTL | - | - | 29 | - | 1 | - |
| Expenses incurred on behalf of BTVL and recovered | 18,063 | 22,742 | 23,734 | 182 | 495 | 4 |
| (b) Bharti Duraline Limited *(Significant interest entity upto April 11, 2001)* | | | | | | |
| Purchase of ducts and other accessories by the Group at market values | 39,849 | 59,216 | 132,963 | - | 2,776 | - |
| Interest bearing short-term deposits net of repayment of Rs 7,200 (2000 – Rs Nil, 1999 – Rs Nil) | - | 7,200 | - | - | - | - |
| Interest free short-term loan net of repayment of Rs 3,895 | - | - | 5,000 | - | 104 | - |
| Other costs/ expenses incurred on behalf of BDL | - | - | 259 | - | 6 | - |
| (c) BBTIL *(Associated Company upto March 30, 2001)* | | | | | | |
| Advertisement expenses incurred on behalf of BBTIL and recovered | - | 5,052 | - | - | - | - |
| Internet services provided to the Group at market rates | - | 42 | 4,982 | - | 104 | - |
| Purchase of software for BBTIL | - | - | 1,252 | - | 27 | - |
| Other expenses incurred on behalf of BBTIL and recovered | - | - | 870 | - | 18 | - |

| Nature of Transaction | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | (Restated) | (Restated) | (Restated) | (Unaudited) | Restated) | (Unaudited) |
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| (d) BTFL | | | | | | |
| *(Significant interest entity)* | | | | | | |
| Interest bearing short-term deposits, net of repayments of Rs Nil (2000 - Rs 292,848, 1999 - Rs 39,842) | 257,985 | 16,173 | 76,377 | - | 1,595 | - |
| Interest on short-term deposits | 65,071 | 14,035 | 6,819 | - | 142 | - |
| Sale of bonds to BTFL | 220,554 | - | - | - | - | - |
| Commission paid to BTFL for Sky Cell acquisition | - | - | 50,000 | - | 1,044 | - |
| (e) BBTL *(Associated Company upto June 30, 2001)* | | | | | | |
| Purchase of assets from BBTL | - | - | 71,456 | - | 1,492 | - |
| Other expenses incurred on behalf of the Group | - | - | 5,726 | - | 120 | - |
| Sale of internet services to BBTL | - | - | 391 | - | 8 | - |
| Expenses incurred on behalf of BBTL | - | - | 293 | - | 6 | - |
| (f) Bharti Telesoft Limited ('Telesoft') *(Significant interest entity)* | | | | | | |
| Sale of software and assets | - | - | - | 10,186 | - | 213 |
| Sale of internet services to BBTIL | - | - | 1,360 | 204 | 28 | 4 |
| Purchases and other expenses incurred on behalf of the Group | - | - | 9,534 | 9,616 | 199 | 201 |
| Advance for purchase of assets | - | - | 184,963 | - | 3,861 | - |
| Intercorporate deposit placed by the Group | - | - | - | 151,196 | - | 3,156 |
| Other expenses paid by Telesoft | - | - | - | 520 | - | 11 |
| Software related services provided to the Group and recovered | - | - | 2,964 | 4,746 | 62 | 99 |
| (g) Bharti Teletech Limited ('BTTL') | | | | | | |
| *(Significant interest entity)* | | | | | | |
| Purchase of software on behalf of BTTL | - | - | 1,283 | - | 27 | - |
| Payment of rent by BTTL | - | - | - | 170 | - | 4 |
| Other expenses paid by the Group companies | - | - | - | 157 | - | 3 |
| Purchase of telephone equipment by the Group | - | - | 23,302 | 7,697 | 486 | 160 |
| (h) Goa Telecom Limited ('GTL') *(Significant interest entity)* | | | | | | |
| Purchase of equipment from GTL | 4,636 | - | - | - | - | - |
| (j) Bharti Systel ('BSTL') | | | | | | |
| Purchase of telephone equipment by the Group | - | - | - | 4,211 | - | 88 |
| (k) Bharti Inforac ('BIFC') | | | | | | |
| Sale of assets by BBTIL | - | - | - | 6,935 | - | 145 |
| Expenses incurred on behalf of the group | - | - | - | 889 | - | 19 |
| (l) Sunil B Mittal *(Significant influence over BTVL )* | | | | | | |
| Salary and allowances | 1,071 | 1,077 | 1,073 | 14,902 | 22 | 311 |
| Commission | - | 9,077 | 48,021 | - | 1,003 | - |

| Nature of Transaction | Year ended March 31, 1999 (Restated) | Year ended March 31, 2000 (Restated) | Year ended March 31, 2001 *(Restated)* | Six-month period ended September 30, 2001 *(Unaudited)* | Year ended March 31, 2001 *Restated)* | Six-month period ended September 30, 2001 *(Unaudited)* |
|---|---|---|---|---|---|---|
| | | | Thousands of Indian Rupees | | Thousands of US Dollars | |
| (m) Rajan B Mittal | | | | | | |
| *(Significant influence over BTVL )* | | | | | | |
| Salary and allowances | 909 | 1,189 | 2,767 | 1,361 | 58 | 57 |
| (n) SkyCell *(Associate Company upto September 13, 2001)* | | | | | | |

The Company has given interest bearing loans and funded the capital and other expenditure aggregating to Rs 654,084 at March 31, 2001 and Rs 73,851 at March 31, 2000.

Other related entities include Bharti Enterprises Limited ('BEL') (*shareholder in BTL*) and Bharti Overseas Trading Company ('BOTC') (*indirect control over BTVL*) and Bharti Healthcare Limited ('BHCL') (*significant interest entity*). The Group has entered into transactions with these entities with a total value of less than Rs 1 million during the six-month period ended September 30, 2001 and the years ended March 31, 2001, 2000 and 1999.

The balance sheet includes the following amounts resulting from transactions with the related parties:

| | March 31, 2000 *(Restated)* | March 31, 2001 *(Restated)* | September 30, 2001 *(Unaudited)* | September 30, 2001 *(Unaudited)* |
|---|---|---|---|---|
| | Thousands of Indian Rupees | | | Thousands of US Dollars |
| Receivables from related parties | 230,441 | 1,463,999 | 9,154 | 191 |
| Payables to related parties | 14,216 | 68,655 | 38,946 | 813 |

Employee benefits paid or accrued to the Members of the Groups's Board of Directors ('Directors'), other than payments to Sunil B Mittal and Rajan B Mittal, were Rs 34,801 for the six-month period ended September 30, 2001 and Rs 21,326, Rs 19,614 and Rs 10,163 for the years ended March 31, 2001, 2000 and 1999, respectively. Further, the Group has also paid or accrued Rs 21,810 for the six-month period ended September 30, 2001 and Rs 14,965, Rs 4,265 and Rs 2,115 for the years ended March 31, 2001, 2000 and 1999, respectively, to the Directors or their associates for other services of specialised nature.

## 32. SEGMENT INFORMATION

The Group's entire operations are conducted in India. Accordingly, segmental information is prepared on the basis of the following business segments which represent key business activities of the Group:

a) Access services

b) Cellular services

c) Long distance

d) Broadband services

The long distance and broadband segments have been incorporated into the Groups' operations from the year ended March 31, 2001 and accordingly have been included in segment information from that year. Corporate, landing station services and other unallocated items are reflected under 'Others' segment.

The segment information for the six-month period ended September 30, 2001 and years ended March 31, 2001, 2000 and 1999 are as follows:

*For the six-month period ended September 30, 2001 (Unaudited)*

| Description | Access | Cellular | Long Distance | Broadband | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | Thousands of Indian Rupees | | | |
| **Revenues** | | | | | | | |
| Airtime charges | - | 2,065,229 | - | - | - | - | 2,065,229 |
| Call revenue | 602,408 | - | - | - | - | - | 602,408 |
| Access charges | - | 1,003,593 | - | - | - | - | 1,003,593 |
| Fixed monthly subscription | 104,787 | 1,065,286 | - | - | - | - | 1,170,073 |
| Broadband revenues | - | - | - | 134,777 | - | - | 134,777 |
| Other services (including activation, roaming revenues and VAS) | 48,070 | 1,168,295 | - | - | - | - | 1,216,365 |
| **Service revenues** | **755,265** | **5,302,403** | **-** | **134,777** | **-** | **-** | **6,192,445** |
| VSAT sales | - | - | - | 36,474 | - | | 36,474 |
| Handset sales | - | 18,640 | - | - | - | - | 18,640 |
| **Total revenues** | **755,265** | **5,321,043** | **-** | **171,251** | **-** | **-** | **6,247,559** |
| *Proforma revenues ** | *755,265* | *4,350,335* | *-* | *134,777* | *-* | *-* | *5,240,377* |
| **Operating expenses** | | | | | | | |
| Access and interconnection costs | 188,962 | 952,068 | - | - | - | - | 1,141,030 |
| Network operation costs | 80,439 | 458,404 | - | 151,719 | - | - | 690,562 |
| Equipment costs | - | 11,268 | - | 40,332 | - | - | 51,600 |
| Employee costs | 100,254 | 319,004 | - | 59,189 | 96,345 | - | 574,792 |
| Revenue refund to Subscribers | - | 924 | - | - | - | - | 924 |
| Other operating costs | 139,192 | 1,063,977 | - | 61,173 | 185,946 | (18,548) | 1,431,740 |
| **Total operating expenses excluding licence fees and pre-operating costs** | **508,847** | **2,805,645** | **-** | **312,413** | **282,291** | **(18,548)** | **3,890,648** |
| **Earnings before licence fee, pre-operating costs, depreciation and amortisation, interest and taxation** | **246,418** | **2,515,398** | **-** | **(141,162)** | **(282,291)** | **18,548** | **2,356,911** |
| Licence fee | 65,641 | 605,817 | - | 9,064 | - | - | 680,522 |
| **Earnings before pre-operating costs, depreciation and amortisation, interest and taxation** | **180,777** | **1,909,581** | **-** | **(150,226)** | **(282,291)** | **18,548** | **1,676,389** |
| Pre-operating costs | 148,999 | - | 70,564 | - | - | - | 219,563 |
| Depreciation and amortisation | 306,826 | 524,180 | 1,479 | 57,526 | 306,618 | - | 1,196,629 |
| **Operating income/(loss)** | **(275,048)** | **1,385,401** | **(72,043)** | **(207,752)** | **(588,909)** | **18,548** | **260,197** |
| Period capital expenditure | 788,152 | 1,496,962 | 2,391,408 | 15,791 | 135,489 | - | 4,827,802 |
| **Segment assets** | **8,458,859** | **30,637,550** | **5,764,403** | **950,432** | **51,096,260** | **(32,483,678)** | **64,423,826** |
| Shareholder's equity | 851,019 | (3,437,681) | 2,117,994 | 422,420 | 48,590,422 | (6,221,560) | 42,322,614 |
| Segmental liabilities | 7,607,840 | 34,075,231 | 3,646,409 | 528,012 | 2,505,838 | (26,262,118) | 22,101,212 |
| **Consolidated liabilities and equity** | **8,458,859** | **30,637,550** | **5,764,403** | **950,432** | **51,096,260** | **(32,483,678)** | **64,423,826** |

*** Proforma revenues are unaudited and computed as service revenues reduced by access and interconnection costs relating to originating calls from cellular networks paid to Bharat Sanchar Nigam Limited / Mahanagar Telephone Nigam Limited.**

bharti

*For the year ended March 31, 2001*

| Description | Access | Cellular | Long Distance | Broadband | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| | | | | Thousands of Indian Rupees | | | |
| **Revenues** | | | | | | | |
| Airtime charges | - | 2,909,190 | - | - | - | - | 2,909,190 |
| Call revenue | 854,001 | - | - | - | - | - | 854,001 |
| Access charges | - | 1,277,374 | - | - | - | - | 1,277,374 |
| Fixed monthly subscription | 166,708 | 1,712,236 | - | - | - | - | 1,878,944 |
| Broadband revenues | - | - | - | - | - | - | - |
| Other services (including activation, roaming revenues and VAS) | 71,339 | 1,470,849 | - | - | - | - | 1,542,188 |
| **Service revenues** | **1,092,048** | **7,369,649** | **-** | **-** | **-** | **-** | **8,461,697** |
| Handset sales | 229 | 19,441 | - | - | - | - | 19,670 |
| **Total revenues** | **1,092,277** | **7,389,090** | **-** | **-** | **-** | **-** | **8,481,367** |
| *Proforma revenues ** | *1,092,048* | *6,139,634* | *-* | *-* | *-* | *-* | *7,231,682* |
| **Operating expenses** | | | | | | | |
| Access and interconnection costs | 252,462 | 1,230,015 | - | - | - | - | 1,482,477 |
| Network operation costs | 148,128 | 811,743 | - | - | - | - | 959,871 |
| Equipment costs | - | 18,210 | - | - | - | - | 18,210 |
| Employee costs | 171,756 | 442,408 | - | - | 82,740 | - | 696,904 |
| Revenue refund to subscribers | - | 228,035 | - | - | - | - | 228,035 |
| Other operating costs | 270,500 | 1,826,434 | - | - | 166,897 | (15,565) | 2,248,266 |
| **Total operating expenses excluding licence fees and pre-operating costs** | **842,846** | **4,556,845** | **-** | **-** | **249,637** | **(15,565)** | **5,633,763** |
| **Earnings before licence fee, pre-operating costs, depreciation and amortisation, interest and taxation** | **249,431** | **2,832,245** | **-** | **-** | **(249,637)** | **15,565** | **2,847,604** |
| Licence fee | 69,344 | 848,121 | - | - | - | - | 917,465 |
| **Earnings before pre-operating costs, depreciation, amortisation, interest and taxation** | **180,087** | **1,984,124** | **-** | **-** | **(249,637)** | **15,565** | **1,930,139** |
| Pre-operating costs | 61,255 | - | 29,405 | 12,108 | - | - | 102,768 |
| Depreciation and amortisation | 560,981 | 1,089,165 | 962 | 341 | 38,969 | - | 1,690,418 |
| **Operating income/(loss)** | **(442,149)** | **894,959** | **(30,367)** | **(12,449)** | **(288,606)** | **15,565** | **136,953** |
| Period capital expenditure | 1,644,809 | 3,378,484 | 1,118,789 | 2,755 | 83,103 | (1,117) | 6,226,823 |
| Segment assets | 8,126,953 | 22,234,329 | 3,494,340 | 616,740 | 13,902,012 | (12,732,310) | 35,642,064 |
| Shareholder's equity | 1,847,827 | 7,152,788 | 2,559,450 | 258,223 | 13,325,245 | (6,188,099) | 18,955,434 |
| Segmental liabilities | 6,279,126 | 15,081,541 | 934,890 | 358,517 | 576,767 | (6,544,211) | 16,686,630 |
| **Consolidated liabilities and equity** | **8,126,953** | **22,234,329** | **3,494,340** | **616,740** | **13,902,012** | **(12,732,310)** | **35,642,064** |

** Proforma revenues are unaudited and computed as service revenues reduced by access and interconnection costs relating to originating calls from cellular networks paid to Bharat Sanchar Nigam Limited / Mahanagar Telephone Nigam Limited.*

*For the year ended March 31, 2000*

| Description | Access | Cellular | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | Thousands of Indian Rupees | | | |
| **Revenues** | | | | | |
| Airtime charges | - | 1,768,945 | - | - | 1,768,945 |
| Call revenue | 402,617 | - | - | - | 402,617 |
| Access charges | - | 696,126 | - | - | 696,126 |
| Fixed monthly subscription | 72,465 | 695,459 | - | - | 767,924 |
| Other services (including activation, roaming revenues and VAS) | 31,256 | 676,084 | - | - | 707,340 |
| Service revenues | 506,338 | 3,836,614 | - | - | 4,342,952 |
| Equipment sales | 92 | 138,176 | - | - | 138,268 |
| **Total revenues** | **506,430** | **3,974,790** | **-** | **-** | **4,481,220** |
| *Proforma revenues ** | *506,338* | *3,175,023* | - | - | *3,681,361* |
| **Operating expenses** | | | | | |
| Access and interconnection costs | 125,236 | 661,591 | - | - | 786,827 |
| Network operation costs | 72,110 | 432,006 | - | - | 504,116 |
| Equipment costs | - | 121,667 | - | - | 121,667 |
| Employee costs | 149,374 | 211,903 | 21,033 | - | 382,310 |
| Other operating costs | 262,355 | 708,030 | 42,730 | - | 1,013,115 |
| **Total operating expenses excluding licence fees and pre-operating costs** | **609,075** | **2,135,197** | **63,763** | **-** | **2,808,035** |
| **Earnings before licence fee, pre-operating costs, depreciation and amortisation, interest and taxation** | **(102,645)** | **1,839,593** | **(63,763)** | **-** | **1,673,185** |
| Licence fee | 110,891 | 706,019 | - | - | 816,910 |
| **Earnings before pre-operating costs, depreciation and amortisation, interest and taxation** | **(213,536)** | **1,133,574** | **(63,763)** | **-** | **856,275** |
| Depreciation and amortisation | 259693 | 640,895 | 20,501 | - | 921,089 |
| **Operating income/(loss)** | **(473,229)** | **492,679** | **(84,264)** | **-** | **(64,814)** |
| Period capital expenditure | 2,548,552 | 1,142,247 | 67,738 | - | 3,758,537 |
| Total segment assets | 4,733,077 | 8,643,512 | 7,703,445 | (4,315,836) | 16,764,198 |
| Shareholder's equity | 1,050,153 | 112,590 | 5,391,352 | (2,332,138) | 4,221,957 |
| Segmental liabilities | 3,682,924 | 8,530,922 | 2,312,093 | (1,983,698) | 12,542,241 |
| **Consolidated liabilities and equity** | **4,733,077** | **8,643,512** | **7,703,445** | **(4,315,836)** | **16,764,198** |

* Proforma revenues are unaudited and computed as service revenues reduced by access and interconnection costs relating to originating calls from cellular networks paid to Bharat Sanchar Nigam Limited / Mahanagar Telephone Nigam Limited.

*For the year ended March 31, 1999*

| Description | Access | Cellular | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | Thousands of Indian Rupees | | |
| **Revenues** | | | | | |
| Airtime charges | - | 1,210,387 | - | - | 1,210,387 |
| Call revenue | 79,889 | - | - | - | 79,889 |
| Access charges | - | 376,348 | - | - | 376,348 |
| Fixed monthly subscription | 7,676 | 313,979 | - | - | 321,655 |
| Other services (including activation, roaming revenues and VAS) | 9,350 | 294,383 | - | - | 303,733 |
| **Service revenues** | **96,915** | **2,195,097** | **-** | **-** | **2,292,012** |
| Equipment sales | 75 | 156,645 | - | - | 156,720 |
| **Total revenues** | **96,990** | **2,351,742** | **-** | **-** | **2,448,732** |
| *Proforma revenues** | *96,915* | *1,794,268* | *-* | *-* | *1,891,183* |
| **Operating expenses** | | | | | |
| Access and interconnection costs | 29,009 | 400,829 | - | - | 429,838 |
| Network operation costs | 14,315 | 234,775 | (10,986) | - | 238,104 |
| Equipment costs | - | 133,895 | - | - | 133,895 |
| Employee costs | 85,539 | 108,888 | 13,750 | - | 208,177 |
| Other operating costs | 181,459 | 493,499 | 25,891 | - | 700,849 |
| **Total operating expenses excluding licence fees** | **310,322** | **1,371,886** | **28,655** | **-** | **1,710,863** |
| **Earnings before licence fee, depreciation and amortisation, interest and taxation** | **(213,332)** | **979,856** | **(28,655)** | **-** | **737,869** |
| Licence fee | 193,780 | 509,136 | - | - | 702,916 |
| **Earnings before depreciation and amortisation, interest and taxation** | **(407,112)** | **470,720** | **(28,655)** | **-** | **34,953** |
| **Depreciation and amortisation** | **82,615** | **301,574** | **24,849** | **-** | **409,038** |
| **Operating income/(loss)** | **(489,727)** | **169,146** | **(53,504)** | **-** | **(374,085)** |

** Proforma revenues are unaudited and computed as service revenues reduced by access and interconnection costs relating to originating calls from cellular networks paid to Bharat Sanchar Nigam Limited / Mahanagar Telephone Nigam Limited.*

## 33. EARNINGS PER SHARE

The calculation of basic loss per share of Rs 0.1 at September 30, 2001, Rs 0.74 at March 31, 2001, Rs 0.35 at March 31, 2000 and Rs 0.21 at March 31, 1999 is based on loss on ordinary activities after taxation and the weighted average number of shares issued computed for the six-month period ended September 30, 2001 of 1,628 million and for the years ended March 31, 2001, 2000 and 1999 of 1,623 million, 1,570 million and 1,566 million, respectively. The equity shares issued for the implementation of ESOP to the Trust have been not considered as outstanding for basic EPS purposes. For diluted EPS purposes, the shares granted by the Group under the ESOP scheme as at September 30, 2001 have been considered.

## 34. COMMITMENTS AND CONTINGENCIES

(a) *Capital commitments -*

At September 30, 2001, March 31, 2001, 2000 and 1999, the Group had committed to spend approximately Rs 4,284,287, Rs 3,555,661, Rs 1,321,540 and Rs 2,495,580, respectively, under agreements to expand its cellular and access services network. This amount is net of capital advances paid in respect of these capital commitments.

(b) *Guarantees -*

The Group had outstanding guarantees of Rs 16,556,949, Rs 3,267,792, Rs 2,963,766 and Rs 1,716,020 at September 30, 2001, March 31, 2001, 2000 and 1999, respectively, issued to the DoT, banks and financial institutions.

(c) *ETL dispute -*

As more fully discussed in Note 3(b), the Group by September 30, 2001, paid Rs 4,910 million to the DoT, for restoration of the Punjab Licence, subject to determination of the final liability, which shall be ascertained through an arbitration process. The Group, based on a legal opinion, believes that the final liability would not exceed Rs 800 million and, accordingly, the same has been provided in these consolidated financial statements. The additional amount of Rs 4,110 million is considered recoverable by the Group and consequently has not been provided in these consolidated financial statements.

*(d) BML litigation -*

As more fully explained in Note 3(a)(iii), as of March 31, 2001, PCIL has claimed 20 per cent beneficial ownership of BML. The management believes that there is no exposure in this regard to the Group.

*(e) SkyCell litigation -*

BTVL is currently under litigation with DSS who owns 10.5 per cent equity interest in SkyCell as at September 30, 2001, on various counts. This inter alia includes claim for specific performance in respect of agreements to sell the said 10.5 per cent equity interest of DSS to BTVL. Though DSS is seeking to enforce the sale of its shares to the Company for Rs 620 million, the Company believes that they would purchase DSS's stake for Rs 420 million. Further, subsequent to September 30, 2001, the Group has subscribed to additional shares on rights basis in SkyCell, thereby increasing its percentage ownership to 95.33 per cent [See Note 3(f)].

*(f) Claims under BTNL Madhya Pradesh licence -*

The Original Licence Agreement requires BTNL to commission and provide Village Public Telephones ('VPT') in all uncovered villages within 12 months of the effective date of the Original Licence Agreement. As at September 30, 2001, the BTNL has not met the said commitments. As part of the migration package, under the NTP, BTNL paid to DoT the maximum liability of Rs 40 million as liquidated damages in respect of its failure to comply with these obligations and agreed to withdraw its pending claims against the DoT for failure to provide the necessary approvals. The migration package also provided that the DoT and BTNL shall not raise any dispute in respect of licence agreement, or other matters through the period ended July 31, 1999. However, in September 2001, BTNL was forced by the DoT to issue a performance bank guarantee of Rs 500 million, as a security towards the non-performance of this commitment.

The NTP has proposed to levy a Universal Access Levy on all telecom licencees in India, to fund the investments required by Private Operators for meeting its VPT obligations. The Regulator has recommended this levy to be 5 per cent of the AGR out of the existing revenue-share percentage.

Consequently, BTNL believes that no further liquidated damages, are likely to be levied, since the date for meeting these obligations has been proposed to be extended to December 31, 2002 in the recommendations by the Regulator, and therefore, no provision for further liquidated damages has been made in these consolidated financial statements.

*(g) Other claims*

Claims with respect to legal cases against the Group not acknowledged as debts at September 30, 2001, March 31, 2001, 2000 and 1999 were Rs 290,267, Rs 104,011, Rs 70,158, and Rs 40,810, respectively.

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Changes in working capital

| | Year ended March 31, 1999 | Year ended March 31, 2000 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 | Year ended March 31, 2001 | Six-month period ended September 30, 2001 |
|---|---|---|---|---|---|---|
| | *(Restated)* | *(Restated)* | *(Restated)* | *(Unaudited)* | *Restated)* | *(Unaudited)* |
| | Thousands of Indian Rupees | | | | Thousands of US Dollars | |
| (Increase)/ decrease in accounts receivable | (62,485) | (53,011) | (407,734) | (135,873) | (8,513) | (2,837) |
| (Increase)/ decrease in inventories | (4,255) | 16,193 | (13,862) | (20,694) | (289) | (432) |
| (Increase)/ decrease in other current assets | 77,000 | 145,116 | (458,047) | (4,236,547) | (9,564) | (88,445) |
| Increase/ (decrease) in revenues received in advance | (32,455) | 10,812 | 63,822 | 79,299 | 1,332 | 1,656 |
| Increase/(decrease) in licence fee payable | 421,639 | (3,886,271) | - | 7,720 | - | 161 |
| Increase/(decrease) in accrued employee costs | 6,255 | 41,813 | 71,541 | (24,674) | 1,493 | (515) |
| Increase/(decrease) in other current liabilities | 116,438 | 772,720 | (101,901) | (691,813) | (2,127) | (14,443) |
| **(Increase)/decrease in working capital** | **522,137** | **(2,952,628)** | **(846,181)** | **(5,022,582)** | **(17,668)** | **(104,855)** |

(b)(i) As discussed in Note 3(a)(i), during the year ended March 31, 2000, the Group acquired effective equity interest of 32.36 per cent in BML. The fair value of assets acquired and liabilities assumed were as follows:

| | 2000 |
|---|---|
| | Thousands of Indian Rupees |
| Cash and cash equivalents | 215,431 |
| Property, plant and equipment, net (including capital work-in-progress and advances) | 988,147 |
| Other current assets | 247,989 |
| **Assets** | **1,451,567** |
| Current liabilities | 4,262,565 |
| Security deposits | 174,515 |
| Borrowings | 1,095,827 |
| **Liabilities** | **5,532,907** |
| **Net liabilities** | **4,081,340** |
| Advances against share capital | 3,297,121 |
| **Total liabilities** | **7,378,461** |
| Share of BTVL, based on its effective shareholding | 2,387,670 |
| Total purchase consideration by BTVL | 551,540 |
| Less: Cash acquired | 215,431 |
| **Cash flow on acquisition, net of cash acquired** | **336,109** |
| **Thousands of US Dollars** | **7,017** |

(b)(ii) As discussed in Note 3(h), during the year ended March 31, 2001, the Group consolidated BBTIL due to its holding of 60.22 per cent at March 30, 2001. The fair value of assets acquired and liabilities assumed were as follows:

| | 2001 |
|---|---|
| | Thousands of Indian Rupees |
| **Description** | |
| Cash and cash equivalents | 10,456 |
| Property, plant and equipment, net (including capital work in progress and advances) | 416,352 |
| Accounts receivable | 23,166 |
| Inventories | 1,453 |
| Other current assets | 127,005 |
| Non current assets | 18,412 |
| **Total assets** | **596,844** |
| Security deposits | (9,255) |
| Employee benefit obligations | (390) |
| Revenue received in advance | (42,630) |
| Accrued employee costs | (2,497) |
| Other current liabilities | (92,449) |
| **Liabilities** | **(147,221)** |
| **Net Liabilities** | **449,623** |
| Share of BTVL based on its effective shareholding | 270,763 |
| **Total purchase consideration** | **352,713** |
| Less: Cash acquired | 10,456 |
| **Cash flow on acquisition, net of cash acquired** | **342,257** |
| **Thousands of US Dollars** | **7,145** |

(b)(iii) As discussed in Notes 3(f), (g) and (h), during the six-month period ended September 30, 2001, the Group acquired effective equity interest of 100 per cent in BMBL and increased its equity interest in SkyCell to 89.5 per cent and in BBTL to 100 per cent, thereby consolidating these in the current period financial statements. The fair value of assets acquired and liabilities assumed were as follows:

| Description | BMBL | SkyCell | BBTL | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 47,798 | 48,488 | 15,940 | 112,226 |
| Property, plant and equipment, net (including capital work in progress and advances) | 509,243 | 649,380 | 190,232 | 1,348,855 |
| Accounts receivable | 55,201 | 131,767 | 84,335 | 271,303 |
| Inventories | - | - | 63,664 | 63,664 |
| Marketable securities | - | - | 7 | 7 |
| Other current assets | (25,315) | 80,709 | 25,425 | 80,819 |
| Non current assets | 15,822 | - | 13,546 | 29,368 |
| **Total assets** | **602,749** | **910,344** | **393,149** | **1,906,242** |
| Security deposits | (53,178) | (140,619) | (2,550) | (196,347) |
| Employee benefit obligations | (11) | - | - | (11) |
| Borrowings | (624,650) | (1,427,768) | (2,177) | (2,054,595) |
| Revenue received in advance | (69,836) | (36,752) | (65,764) | (172,352) |
| Licence fee payable | (1,676) | 520 | - | (1,156) |
| Accrued employee costs | (3,387) | (4,569) | (6,574) | (14,530) |
| Other current liabilities | (306,748) | (526,047) | (87,149) | (919,944) |
| **Liabilities** | **(1,059,486)** | **(2,135,235)** | **(164,214)** | **(3,358,935)** |
| **Net Liabilities** | **(456,737)** | **(1,224,891)** | **228,935** | **(1,452,693)** |
| Share of BTVL based on its effective shareholding | (456,739) | (1,096,277) | 228,937 | (1,324,079) |
| **Total purchase consideration** | **3,144,907** | **3,169,493** | **391,911** | **6,706,311** |
| Less: Cash acquired | 47,798 | 48,488 | 15,940 | 112,226 |
| **Cash flow on acquisition, net of cash acquired** | **3,097,109** | **3,121,005** | **375,971** | **6,594,085** |
| **Thousands of US Dollars** | **64,658** | **65,157** | **7,849** | **137,664** |

(b)(iv) As discussed in Note 3(a)(ii), (iii), and (iv), 3(c) and (d), during the year ended March 31, 2001, the Group paid the following cash considerations for further acquisitions in its subsidiaries and joint ventures:

| | March 31, 2001<br>Thousands of<br>Indian Rupees |
|---|---|
| An effective 13 per cent equity interest in BML [See Note 3(a)(ii)] | 52,000 |
| An effective 20 per cent equity interest in BML [See Note 3(a)(iii)] | 489,500 |
| An effective 8.64 per cent equity interest in BML [See Note 3(a)(iv)] | 64,500 |
| **2 per cent equity interest in BCL [See Note 3(c)]** | **371,220** |
| 30.20 per cent equity interest in BTNL [See Note 3(d)] | 972,718 |
| 60.22 per cent equity interest in BBTIL | 342,257 |
| | **2,292,195** |
| **Thousands of US Dollars** | **47,854** |

(b)(v) As discussed in Note 3(c),(f),(g) and (h), during the six-month period ended September 30, 2001, the Group paid the following cash considerations for acquisition of new subsidiaries and further acquisition in existing subsidiaries, associates and joint ventures:

| | September 30, 2001 |
|---|---|
| | ***(Unaudited)*** |
| | Thousands of Indian Rupees |
| 15 per cent equity interest in BTPL | 273,463 |
| 100 per cent equity interest in BBTIL | 335,788 |
| 100 per cent equity interest in BBTL | 375,971 |
| 44 per cent equity interest in BCL | 7,679,943 |
| 89.5 per cent equity interest in Skycell | 3,121,005 |
| 100 per cent equity interest in BMBL | 3,097,109 |
| | 14,883,279 |
| Less: Investment in joint ventures considered as purchase consideration | (75,911) |
| Less: Investment in associates considered as purchase consideration | (1,171,492) |
| | **13,635,876** |
| **Thousands of US Dollars** | **284,674** |

## 36. LIST OF SUBSIDIARIES CONSOLIDATED

| Entity | Country of Incorporation | Principle Service | Beneficial Shareholding March 31, 1999 | March 31, 2000 | March 31, 2001 | September 30, 2001 |
|---|---|---|---|---|---|---|
| Bharti Cellular Limited | India | Cellular | 51 | 51 | 56 | 100 |
| Bharti Telenet Limited | India | Access and Cellular | 51 | 51 | 100 | 100 |
| Bharti Mobile Limited | India | Cellular | - | 32.36 | 74 | 74 |
| Bharti Telesonic Limited | India | Long distance business | - | - | 90 | 90 |
| Bharti Broadband Networks Limited | India | Broadband services | - | - | 100 | 100 |
| Bharti Aquanet Limited | India | Landing station | - | - | 100 | 100 |
| Bharti Comtel Limited | India | Administrative support to BTNL | 100 | 100 | 100 | 100 |
| Welldone Impex (India) Limited | India | Handset trading | 51 | 51 | 56 | 100 |
| Jumbo Holdings Limited | India | Special purpose Vehicle | - | 100 | 100 | 100 |
| Jubiliant Holdings Limited | India | Special purpose Vehicle | - | 100 | 100 | 100 |
| Viscount Holdings Limited | India | Special purpose Vehicle | - | 100 | 100 | 100 |
| SC Cellular Holdings Limited | India | Special purpose Vehicle | - | 63.45 | 100 | 100 |
| Bharti Mobinet Limited | India | Cellular | - | - | - | 89.5 |
| Bharti Mobitel Limited | India | Cellular | - | - | - | 100 |
| Bharti Telespatial Limited | India | Special purpose Vehicle | 100 | 85 | 85 | 100 |
| Bharti BT Internet Limited | India | Internet services | - | - | 100 | 100 |
| Bharti BT Limited | India | VSAT services | - | - | - | 100 |

## 37. FINANCIAL INSTRUMENTS

The carrying amount of current financial assets and liabilities approximates their fair value due to the relatively short-term maturity of these financial instruments.

Financial assets and liabilities also include non-current assets and liabilities such as security deposits given to Government departments, secured loans given to employees, security deposits accepted from subscribers and long-term loans taken by the Group. The fair value of the security deposits given cannot be estimated as they are continual in nature, however, the amortised value (based on the effective interest method) of security deposits taken from the subscribers, estimated on the expected life of the subscriber as of September 30, 2001 is 1,303,160 (March 31, 2001 - 1,030,044 and March 31, 2000 - Rs 665,981).

The fair value of the long-term loans is based on the current rates available for debt with the same maturity profile. The fair value of the principal portion of interest bearing long-term borrowings as of September 30, 2001 is Rs. 6,254,707 (March 31, 2001 - Rs. 4,446,172, March 31, 2000 - Rs. 4,817,002).

## 38. LEASES

The Group has various operating lease agreements for its base transceiver stations and offices. These leases are typically cancelable at the option of the lessee ie, the Group, by serving a notice ranging between one to three months. As on September 30, 2001, future minimum lease payments, approximating the notice period, under these operating leases are Rs 28,291 (March 31, 2001 - Rs 33,669).

## 39. SUBSEQUENT EVENTS

(a) On May 31, 2001, BTPL, BBTL and BBNL filed petitions for merger into BBTIL with the High Courts of Delhi and Karnataka. The Karnataka High Court has sanctioned the merger scheme on December 13, 2001, and the merger is pending approval from the Delhi High Court. The date for the final hearing by the Delhi High Court is fixed for January 15, 2002.

(b) On October 8, 2001, BTNL has signed the licence agreement to operate access services in the Haryana circle and paid entry fee of Rs 100 million and commenced operations in the Haryana circle on December 26, 2001. The licences for Karnataka, Tamil Nadu and Delhi have been entered into on October 29, 2001 for a total licence entry fee of Rs 1,350 million.

(c) On July 10, 2001, the Company's Board of Directors approved the acquisition of 25,000,000 fully paid equity shares of Rs 10 each of BTSL, representing 10 per cent of its total paid up share capital held by a subsidiary of SingTel. The transaction was consummated on October 11, 2001 at a 'all cash' consideration of Rs 274 million resulting in an estimated goodwill of Rs 36 million *(based on unaudited numbers)* to be amortised over 20 years from the month of acquisition.

(d) The Board of Directors of the Company on September 21, 2001, have approved the transfer of its equity holdings in BAL in favour of BTSL for a cash consideration of Rs 10 per share. Subsequently, on December 26, 2001, BAL allotted a total of 2,449,993 equity shares to BTL and Singtel i2i Private Limited at premium of Rs 70 per share resulting in BTSL diluting its 100 per cent interest and incorporating a 51:49 joint venture.

(e) Jumbo Holdings Limited, Jubilant Holdings Limited and Viscount Holdings Limited, the three special purpose vehicles, are proposed to be merged with BTVL and have received sanctions from the Chennai High Court and the Delhi High Court on June 28, 2001 and October 29, 2001, respectively. These orders have subsequently been registered with the Registrar of Companies on November 27, 2001 and December 24, 2001, respectively.

(f) The Group has initiated the amalgamation proceedings of Welldone Impex India Private Limited with BCL and the matter is pending approval from the Delhi High Court and is fixed up for final hearing on January 15, 2002.

(g) On November 29, 2001, BTSL has entered into a licence agreement to provide National Long Distance Services and paid for an entry fee of Rs 1,000 million and guarantees of Rs 4,000 million. The licence is valid for a period of 20 years.

(h) SkyCell's name was changed to Bharti Mobinet Limited with effect from October 3, 2001. Subsequently, BCL has subscribed to additional shares on a rights issue basis, thereby increasing its percentage ownership from 89.5 per cent as at September 30, 2001 to 95.33 per cent.

(i) The consolidated financial statements were authorised for issue on January 10, 2002 by the Board of Directors of the Company.

## 40. NEW ACCOUNTING PRONOUNCEMENTS UNDER IAS

<u>IAS 40 – Investment Property</u>

IAS 40, issued in March 2000, prescribes the accounting treatment for investment property and related disclosure requirements. The Standard is effective for annual financial statements covering periods beginning on or after January 1, 2001.

The standard supercedes previous requirements in IAS 25, Accounting for Investments. The Group does not have any investment property, which generate rentals or which are held for capital appreciation. Accordingly the Standard is not applicable to the Group.

## 41. ACQUISITION OF BTPL

As more fully discussed in Note 3(h) above, BTVL acquired 85 per cent of BTPL in May 2001. Since, both BTVL and BTPL are under the common control of BTL, this acquisition has been accounted for using 'Uniting of Interest' method (IAS 22 – Business Combinations), and accordingly, all the prior periods that is year ended March 31, 1999, 2000 and 2001 have been restated to include the assets, liabilities and results of operations of BTPL for the above periods.

## SIGNIFICANT DIFFERENCES BETWEEN IAS, INDIAN ACCOUNTING POLICIES AND U.S. GAAP

The consolidated financial statements included in the Offer document have been prepared in accordance with International Accounting Standards ("IAS"), which differ in certain respects from the generally accepted accounting principles in the United States ("U.S. GAAP") and the generally accepted accounting principles in India disclosed in the Audited Restated financial statements ("Indian Accounting Policies").

The following paragraphs summarise certain differences between IAS, U.S. GAAP and Indian Accounting Polices that could be significant to the presentation of the Group's results of operations and financial position as of September 30, 2001. The Group has not prepared financial statements in accordance with U.S. GAAP and consolidated financial statements in accordance with the Indian Accounting Policies and, accordingly, cannot offer any assurances that the following differences described below would give rise to the most material differences between the financial statements of the Group prepared under Indian Accounting Policies or U.S. GAAP and under IAS. In addition, the Group cannot estimate the net effect that applying Indian Accounting Policies or U.S. GAAP would have on its results of operations or financial position, or any component thereof, in any of the presentations of financial information that have been included in this Draft Offer Document. However, the effect of such differences may be, individually or in the aggregate, material, and in particular, it may be that the consolidated net results and shareholders' equity prepared on the basis of Indian Accounting Policies or U.S. GAAP would be materially different. The following summary may not include all the differences that exist between IAS, U.S. GAAP and Indian Accounting Policies. U.S. GAAP is generally more prescriptive and comprehensive than IAS and Indian Accounting Policies regarding recognition and measurement of transactions, account classification and disclosure requirements. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements and the notes thereto. The organisations that promulgate U.S. GAAP have projects ongoing that could have a significant impact on future comparisons between U.S. GAAP and IAS or Indian Accounting Policies respectively. Furthermore, certain US standards, in particular the Statements of Financial Accounting Standards No. 133 "Accounting for derivatives and hedging activities", No. 143 "Accounting for asset retirement obligations" and No. 144 "Accounting for the impairment or the disposals of long-lived assets", that have been issued but which are not mandatory for the periods ended September 30, 2001, could result in further significant differences between U.S. GAAP and IAS or Indian Accounting Policies respectively.

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| 1. | Consolidation and investment in subsidiaries | A subsidiary is an enterprise that is controlled by a parent enterprise. Control is defined as the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. Control is presumed to exist if the parent has more than half the voting rights in the subsidiary. A parent company should prepare consolidated financial statements incorporating the financial statements of the subsidiary, which show the minority interests' share of income and net assets, on the face of the consolidated financial statements.<br>Consolidated financial statements do not need to be prepared in respect of subsidiaries acquired and held exclusively for disposal in the near future or subsidiaries that operate under severe long-term restrictions on the transfer of funds to the parent. | There is no requirement to prepare consolidated financial statements. Long term investments in subsidiaries are accounted for, at cost. Current investments are carried at lower of cost or fair value.<br>However, the Institute of Chartered Accountants of India ('ICAI') has issued Accounting Standard ('AS') 21 on "Consolidated Financial Statements", which is applicable for the accounting years commencing on or after April 1, 2001. Further, the Securities and Exchange Board of India ('SEBI') has recently issued a circular according to which companies shall be mandatorily required to publish Consolidated Financial Statements in the annual report in addition to the individual financial statements, in accordance with AS 21. The said accounting standard is broadly in line with the corresponding IAS accounting guidelines. | Consolidation is generally required for investments of greater than 50% of the outstanding voting stock, except when control is likely to be temporary or control is not held by the majority owner. Minority interest should be recorded for the pro rata share of the subsidiaries' book value not owned by the parent company.<br>Entities where the minority shareholder has substantive participating rights overcome the presumption that the majority shareholder controls the entity thus precluding consolidation of the results of that entity. In such cases, the equity method of accounting applies. |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| 2. | Investments in associates | An associate is an enterprise in which an investor has significant influence but which is not a subsidiary or a joint venture of the investor. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies. An investor is presumed to have significant influence if it has 20% or more of the voting rights in the investee. In the investor's consolidated financial statements, investments in associates should be accounted for using the equity method of accounting wherein the investment is recorded initially at cost. On acquisition of the investment any difference (whether positive or negative) between the cost of acquisition and the investor's share of the fair values of the net identifiable assets of the associate is accounted for in accordance with the purchase method of accounting prescribed by IAS 22 on "Business Combinations".<br><br>Subsequent adjustments are made through recognition in the profit-and-loss account for the investor's share of post acquisition profits and losses, and through recognition in shareholders' equity for other post acquisition changes in the investee's net assets. In case an investor's share of losses of an investee equal or exceed the carrying amount of an investment the investor ordinarily should discontinue including its share of losses. | There is no requirement to adopt equity method of accounting. Long term investments in associates are accounted for, at cost. Current investments are carried at lower of cost or fair value.<br><br>However, the ICAI has issued AS 23 on "Accounting for Investments in Associates in Consolidated Financial Statements" which would come into effect in respect of accounting periods commencing on or after April 1, 2001. AS 23 recommends equity method of accounting for investments in associates in consolidated financial statements. | Investments in 20% to 50%-owned corporate entities over which the investor can exert significant influence (but not control) should be accounted for using the equity method. The equity method requires investors to record their investment in the associate as a one-line asset and reflect their proportionate share of the investee's net income/loss in their earnings. Dividends received reduce the investment account. This method is also followed for unconsolidated subsidiaries. |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| 3. | Interests in joint ventures | A joint venture is a contractual arrangement whereby two or more parties (venturers) undertake an economic activity subject to joint control. In the consolidated financial statements, the venturer should report its interest in the joint venture using proportional consolidation, either on a line by line basis or as separate line items. Alternatively, the equity method of accounting may be adopted. | There is no specific guidance in Indian Accounting Policies on reporting on interests in joint ventures. Accordingly, long term investments in joint ventures are accounted for, at cost and current investments are carried at lower of cost or fair market value. | The equity method of accounting generally is required for accounting for joint ventures, unless a joint venturer controls the venture. |
| 4. | Business combinations | The purchase method of accounting is used for accounting for acquired businesses. Any excess of the cost of the acquisition over the acquirer's interest in the fair value of the identifiable assets and liabilities acquired as at the date of the exchange transaction should be described as goodwill and recognised as an asset. The assets and liabilities of the acquired company are consolidated at their fair values as at the date of acquisition.<br><br>Transactions between entities under common control are specifically excluded from the scope of IAS 22.<br><br>The results of operations are included in the consolidated financial statements from the date of obtaining management control.<br><br>Acquisitions are accounted for at cost as determined at the date of exchange. All direct costs relating to an acquisition, are included in the cost of that acquisition.<br><br>The benchmark treatment under IAS is to record the AS acquirer's interest in the identifiable assets and liabilities of an acquired entity at their fair value, while recording the minority's interest at their pre-acquisition carrying value. The allowed alternative treatment permits companies to record all the identifiable assets and liabilities of an acquired entity at their fair value, including minority interest.<br><br>IAS requires any contingent purchase consideration that is probable and can be measured | AS 14 on "Accounting for Amalgamations" issued by the ICAI deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves. The standard, however, does not deal with cases of acquisitions which arise when there is a purchase by one company of the whole or part of the shares, or the whole or part of the assets, of another company in consideration for payment in cash or by issue of shares or other securities in the acquiring company or partly in one form and partly in the other.<br><br>As of March 31, 2001, the Company has not entered into any transactions to which the above accounting standard is applicable. As discussed in the preceding paragraphs, investments in subsidiaries and associates have been accounted for at cost. | Business combinations are accounted in accordance with Accounting Principles Board ('APB') Opinion No. 16, Business Combinations. The Opinion specifies 12 specific criteria for the use of the pooling of interest method, which all must be met, to apply this method.<br><br>Purchase accounting is required to be followed in all situations where the pooling-of-interests criteria are not met.<br><br>The results of the acquired business is reflected only from the acquisition date forward.<br><br>Combinations of entities under common control or common ownership are accounted for at historical cost in a manner similar to that of pooling of interest accounting.<br><br>The principles for recognition and amortisation of goodwill corresponding to APB Opinion No. 16 are similar to those under IAS accounting guidelines, with the following main differences: |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| | | reliably to be considered in the cost of making the acquisition. IAS requires the acquirer to include all direct costs relating to an acquisition, including the costs of registering and issuing equity securities, to be included in the cost of that acquisition. Costs incurred during the research phase of a project may not be capitalised.<br>Therefore, in allocating the purchase price in a business combination no amounts are allocated to assets that do not meet the recognition criteria, such as research. Instead, such amounts are allocated to goodwill under IAS. | | • Contingent purchase consideration is usually recorded when the contingency is resolved and consideration is issued or becomes issuable.<br>• The costs of registering and issuing equity securities in a purchase business combination should be accounted for as a reduction of the fair value of the securities issued.<br>• The Financial Accounting Standards Board requires in its Interpretation No. 4 that the purchase price paid in a business combination should also be allocated to in-process research and development, which is immediately written-off to expense.<br>Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations requires the use of the purchase method of accounting for all business combinations initiated after June 30, 2001. SFAS No. 141 requires intangible assets to be recognized if they arise from contractual or legal rights or are "separable", i.e., it is feasible that they may be sold, transferred, licensed, rented, exchanged or pledged. |
| 5. | Goodwill | Goodwill should be recognised as an asset and carried at cost less any accumulated amortisation and any accumulated impairment losses. Goodwill should be amortised on a systematic basis over its useful life. There is a rebuttable presumption that the useful life should not exceed 20 years from the initial recognition. An enterprise should review amortisation period and amortisation method of goodwill at minimum each fiscal year end. Internally generated goodwill should not be recognised as an asset.<br>The timing and extent for recognition of negative goodwill is based on criteria losses and expenses, then to that extent it should be | Goodwill arising on amalgamation should be amortised to income on a systematic basis over its useful life. The amortisation period should not exceed five years unless a somewhat longer period can be justified. | APB Opinion No. 16 requires goodwill to be recognised and capitalised, in connection with purchase method acquisitions, as the excess of the purchase price over the fair value of the net assets acquired. Goodwill is amortised over a period not exceeding 40 years: however, shorter periods are normally applied, particularly in high technology industries and cannot be immediately written-off against retained earnings or income.<br>In some cases, the sum of the amounts assigned to assets acquired and liabilities assumed will exceed the cost of the acquired entity (negative goodwill). Negative goodwill shall be allocated as a pro rata reduction of the amounts that |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
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| | | recognised in the income statement when the future losses and expenses are recognised.<br><br>If negative goodwill does not relate to identifiable expected future losses and expenses, then negative goodwill should be recognised as income over the remaining weighted average useful life of the acquired identifiable depreciable/ amortisable assets, only to the extent of the fair value of such assets. The remaining negative goodwill, if any, should be recognised as income immediately. | | otherwise would have been assigned to all of the acquired assets except (a) financial assets other than investments accounted for by the equity method, (b) assets to be disposed of by sale, (c) deferred tax assets, (d) prepaid assets relating to pension or other postretirement benefit plans, and (e) any other current assets.<br><br>The remainder according to APB Opinion No. 16 is classified as a deferred credit and amortised systematically to income over the period estimated to be benefitted.<br><br>Under SFAS No. 142, effective for fiscal years beginning after December 15, 2001, goodwill arising on business combinations will no longer be subject of amortization. Instead, goodwill will be tested for impairment on an annual basis and whenever indicators of impairment arise. The goodwill impairment test, which is based on fair value, is to be performed on a reporting unit level. A reporting unit is defined as a operating segement or one level below. Though, SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, goodwill on business combinations consummated after July 1, 2001, will not be amortized. On adoption the Company may need to record a cumulative effect adjustment to reflect the impairment of previously recognized intangible assets. In addition, goodwill on prior business combinations will cease to be amortized. |
| 6. | Licence fees | Licence fees payments are made to the Department of Telecommunications (‘DoT’) of the Government of India in respect of the cellular and wireline telecom service licences granted to the Group in accordance with the terms of the licence agreements. Licence agreements are in the nature of operating leases. Accordingly, the licence fee costs incurred by the Group under the old license fee regime until the date of | ***Accounting policy under the New Telecom Policy 1999*:**<br><br>*Licence entry fee*<br><br>The Licence entry fee being the amount of licence fee payable upto July 31, 1999 under the old licence fee regime is capitalised as an asset and amortised equally over the period of the license.<br><br>*Revenue sharing fee*<br><br>With effect from August 1, 1999, revenue sharing fee, | |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| | | migration to the New Telecom Policy, ie July 31, 1999, and revenue-share fee from the date of migration are expensed as incurred. | computed at the provisional rate of 15 per cent of service revenues, is expensed in the statement of profit and loss in the period in which the related income from providing cellular mobile telephony services is recognised. | The treatment under U.S. GAAP, would be similar to that under IAS. |
| 7. | Borrowing costs and interest capitalised | Borrowing costs are defined as interest and other costs incurred in connection with the borrowing of funds and may include amortisation of discounts, premiums or ancillary costs relating to borrowings. Borrowing costs may also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Borrowing costs should be recognised as an expense in the period in which they are incurred and should be calculated using an effective interest-rate method.<br>Borrowing costs will include the amortisation of transaction costs included in the initial measurement of the liability. An acceptable alternative is to capitalise those borrowing costs attributable to the acquisition or construction of an asset. | The definition of borrowing costs in Indian Accounting Policies is the same as that under IAS. Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset should be capitalised as a cost of that asset. Other borrowing costs should be recognised as an expense in the period in which they are incurred. | Underwriting, legal, and other direct costs incurred in connection with the issuance of debt should be treated as a deferred charge, classified as a noncurrent asset when a classified balance-sheet is presented, and amortised using the effective interest rate method over the life of the debt. Fees paid to secure a firm commitment from a lender should be deferred and recognised over the life of the debt if the commitment is exercised, or expensed at the time the commitment expires.<br>Foreign exchange gains and losses may not be capitalised.<br>Interest costs should be capitalised as part of the cost of an asset that is constructed or produced for an enterprise's own use. The capitalisation period begins when activities to ready the asset for use commence, and ends when the asset is ready for use. The capitalised interest should be expensed over the estimated useful life of the asset as part of the depreciation charge. |
| 8. | Leases | A lease is classified as a finance lease if the risks and rewards incident to ownership lie with the lessee. Classifying a lease depends upon the substance of transaction rather than the form of the contract. A lessee should recognise a finance lease as assets and liabilities in their balance-sheets at an amount equal to the fair value of the asset or if lower, the present value of the minimum lease payments (excluding contingent rent, cost of services, and taxes). Initial direct costs incurred are included as part of asset. Assets under a finance lease should be treated the same as property, plant, and equipment.<br>Lease payments under an operating lease should be AS | AS 19 on "Leases" recently issued by the Institute of Chartered Accountants of India comes into effect in respect of all assets leased during accounting periods commencing on or after April 1, 2001. According to this standard, leases are classified into finance leases or operating leases based on the extent to which risks and rewards incident to ownership of a leased asset lie with the lessor or the lessee. For finance leases, leased assets are capitalised and a corresponding liability of same amount to lessor is recorded. For operating leases, lease payments are recognised as an expense on a straight-line basis over the lease term | (unless another systematic Similar to IAS although US GAAP is far more prescriptive and provides specific quantitative criteria in order to determine whether a lease is a capital (finance) or an operating lease.<br>If any one of the following four criteria applies to a lease agreement, then the lease must be classified as capital by the lessee:<br>● The lease transfers ownership of the leased assets to the lessee at the end of the lease term.<br>● The lease contains a bargain purchase option.<br>● The lease term is greater than or equal to 75% of the economic useful life of the leased asset. |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| | | recognised as an expense on a straight-line basis over the lease term unless another systematic basis is representative of the time pattern of the user's benefit. | basis is more representative of the time pattern of the user's benefit). | • The present value of the minimum lease payments is greater than or equal to 90% of the fair value of the leased asset.<br>A capital lease should be accounted for by the lessee as the acquisition of an asset and the incurrence of a liability, and by the lessor as a sale and/or financing.<br>Operating lease payments should generally be recognised on a straight-line basis over the term of the lease. |
| 9. | Asset revaluation and impairment | Fixed assets are carried at historical cost. In addition, the asset may be carried at a revalued amount. Revaluation surpluses should be credited directly to revaluation reserves. However, a revaluation increase should be recognised to income to the extent it reverses a revaluation decrease of the same asset previously recognised as an expense. A revaluation decrease should be expensed unless there is a revaluation surplus on the same asset, in which case the decrease should first be netted off the balance in the revaluation reserves.<br>An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the enterprise should recognise an impairment loss. Recoverable amount is the higher of an asset's net selling price and the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.<br>If there is an indication that goodwill may be impaired, the recoverable amount should be determined for the cash-generating unit to which the goodwill belongs. If the carrying amount is more than the recoverable amount, an impairment loss should be recognised. | An increase in net book value arising on revaluation of fixed assets is normally credited directly to owner's interests under the heading of revaluation reserves and is regarded as not available for distribution.<br>A decrease in net book value arising on revaluation of fixed assets is charged to profit and loss statement except that, to the extent that such a decrease is considered to be related to a previous increase on revaluation that is included in revaluation reserve, it is sometimes charged against that earlier increase.<br>Where the depreciable assets are revalued, the provision for depreciation should be based on the revalued amount and on the estimate of the remaining useful lives of such assets. | No upward revaluation of any class of fixed assets is permitted.<br>Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, companies will be required to compare undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, companies are required to record impairment losses to write the asset down to fair value. |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| 10. | Investment securities | Investments are classified as long term or current. A current investment is an investment that is by its nature readily realisable and is intended to be held for not more than one year. A long-term investment is an investment other than a current investment. Investments classified as current assets are carried in the balance sheet at either market value or the lower of cost and market value. Investments classified as long-term assets are carried in the balance sheet at either cost, revalued amounts, or in the case of marketable equity securities, the lower of cost and market value determined on a portfolio basis. The carrying amount of all long-term investments should be reduced to recognise a decline other than temporary in the value of the investments, such reduction being determined and made for each investment individually. Any diminution in value is recognised currently in the income statement.<br>However for annual financial statements covering periods beginning on or after January 1, 2001, the provisions of IAS 39 would need to be applied. As per IAS 39, investment securities should be classified as held for trading, held to maturity, originated loans or receivables, or available-for-sale securities, in accordance with strict criteria laid down in IAS 39. Those classified as held for maturity or as originated loans and receivables are carried at amortised cost.<br>Those classified as held for trading or as available for sale securities are carried at fair value with gains and losses on those held for trading taken to income and on available for sale securities taken either to income or to equity. | Investments are classified as long-term and current. Current investments are readily realisable and not intended to be held for more than one year from the date of purchase and are carried at the lower of cost or fair market value. Unrealised losses are charged to the income statement, while unrealised gains are not recorded. A long-term investment is an investment other than a current investment and is valued at cost, subject to a write-down for impairment on permanent diminution in value of the investment. | Investments in marketable equity and all debt securities that are not derivative instruments must be classified at acquisition, according to management's intent and ability, into one of the following categories: trading, available for sale, or held to maturity. Trading securities (those actively bought and sold) should be marked to fair value, with the resulting unrealised gain or loss recognised currently in the income statement. Available-for-sale securities should be marked to fair value, with the resulting unrealised gain or loss recorded directly to a separate component of equity until realised, at which time the gain or loss is reclassified to income. Held-to-maturity securities (a classification allowed only for debt securities and for preferred stock with required redemption dates) should be carried at amortised cost. Other than temporary impairments in value are accounted for as realised losses. |
| 11. | Foreign exchange | Foreign currency transactions should be translated into the company's measurement currency using the rate of exchange at the transaction date. All monetary assets and liabilities should be translated at the closing rate on the | Transactions in foreign currency are recorded at the exchange rate prevailing at the date of the transaction. Monetary items are restated at year-end foreign exchange rates. Resultant exchange difference arising on payment | Under US GAAP gains or losses arising from foreign currency transactions are generally included in determining net income for the period in which such gains or losses arise. As a general rule, the current rate translation method is followed |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| | | balance-sheet date. Non-monetary assets and liabilities carried at cost should be translated at historical rates, whilst those carried at fair value should be translated at rates applicable when the fair values were determined. Foreign exchange gains and losses should be reported as part of the profit or loss for the year, unless they relate to the revaluation of monetary items that form part of, or are used to hedge, the company's net investment in a foreign entity, in which case the gains and losses should be recognised within shareholders' equity. | or conversion of liabilities are recognised as income or expense in the year in which they arise, except in respect of liabilities for acquisition of fixed assets, where such exchange difference is adjusted in the carrying cost of the respective fixed assets. | for foreign investments when the local currency is the functional currency. Under the current rate method assets and liabilities are translated using the current exchange rate at the balance sheet date. Amounts in the income statements are usually translated using the weighted average rate for the accounting period. The translation differences that arise are shown as a separate component of shareholders' equity. |
| 12. | Deferred taxation | Deferred tax should be calculated using the balance-sheet-liability method. Deferred tax assets must be recognised when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilised.<br>Deferred tax liability should be recognised for all taxable temporary differences. However, deferred tax liabilities cannot be recognised on undistributed earnings if (*a*) the parent/investor can control the timing of the distribution and (*b*) it is probable that reversal will not occur in the foreseeable future.<br>IAS requires recognition of changes in rates when "substantively enacted". IAS also states that the elimination of intercompany profits on intragroup transactions from the carrying amount of assets, such as inventory, may give rise to deductible temporary difference from which a deferred tax asset should be recognised. | There is no mandatory requirement to account for deferred taxes in the financial statements.<br>However, AS 22 on "Accounting for Taxes on Income" has recently been issued by the Institute of Chartered Accountants of India which is mandatory in respect of accounting periods commencing on or after April 1, 2001 for all companies with listed debt or equity securities. The standard classifies differences between taxable income and accounting income into permanent differences and timing differences. If tax laws allow only a part of an item of expenditure, the disallowed amount would result in a permanent difference.<br>Timing differences arise because the period in which some items of revenue and expenses are included in taxable income do not coincide with the period in which such items of revenue and expenses are included or considered in arriving at accounting income. Only timing differences will result in deferred tax assets or deferred tax liabilities.<br>Deferred tax assets should be recognised and carried forward only to the extent that there is a reasonable certainty that | Deferred tax liabilities and assets should be recorded for the tax effect of all temporary differences between the tax and book bases of assets and liabilities as well as tax attributes such as net operating loss carry-forwards. Amounts should be computed using currently enacted tax rates and adjusted through a charge to income if tax rates change.<br>A valuation allowance is recognised if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realised. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset.<br>Judgment must be used in considering the relative impact of negative and positive evidence. The weight given to the potential effect of negative and positive evidence should be commensurate with the extent to which it can be objectively verified. Forming a conclusion that a valuation allowance is not needed is difficult when there is strong |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| | | | sufficient future taxable income will be available against which such deferred tax assets can be realised.<br><br>In case of unabsorbed depreciation or carry forward of losses, deferred tax assets should be recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised. Tax expense for the period, comprising current tax and deferred tax, should be included in the determination of the net profit or loss for the period. | negative evidence such as cumulative losses in recent years.<br><br>Where it is reasonable to assume that a part or all of the undistributed earnings of a foreign subsidiary will be transferred to the parent in a taxable distribution, provision for related income taxes should be made on an estimated basis at the time the earnings are included in consolidated income, unless these taxes are immaterial in amount when effect is given.<br><br>There is no need to provide for income tax to the parent company in cases where the income has been, or there is evidence that it will be, permanently invested by the foreign subsidiaries. Elimination of the intercompany profit on intra group transactions and deferral of the income tax paid is required. |
| 13. | Presentation of statement of cash flows | A cash flow statement should be prepared by an enterprise as an integral part of its financial statements. The cash flow statement should report cash flows during the period classified by operating, investing, and financing activities.<br><br>Cash flows from operating activities may be reported using either the direct method (presenting gross payments and receipts) or the indirect method (where net profit is adjusted for noncash transactions). Cash flows from investing and financial activities should be reported gross, except for certain transactions that may be reported on a net basis.<br><br>Cash equivalents are defined as short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. | As per AS 3 'Cash Flow Statements' an enterprise should prepare a cash flow statement and should present it for each period for which the financial statements are presented. The standard is recommendatory in nature. However, publicly traded companies are required to report on their cash flows under the SEBI guidelines.<br><br>The cash flow statement should report cash flows during the period classified by operating, investing, and financing activities. Cash flows from operating activities may be reported using either the direct method (whereby major classes of gross cash receipts and payments are disclosed) or the indirect method (whereby net profit or loss is adjusted for noncash transactions). | Similar to IAS except that IAS permits interest and dividends that are paid or received to be classified as part of either operating cash flows or financing cash flows. Under US GAAP, interest paid, interest received and dividends received must be classified as operating activities. |

| | Subject | IAS | Indian Accounting Policies | U.S.GAAP |
|---|---|---|---|---|
| 14. | Presentation of financial statements | The primary financial statements required under IAS are the balance sheet, the statements of profit and loss, a statement of cash flows and a statement of changes in shareholders' equity.<br>IAS 1 allows an enterprise to present an analysis of expenses using for the statement of profit and loss classification based on either the *nature* of expenses or their *function* within the enterprise. The Company has elected the expense method. Under the nature of the expense method, expenses are aggregated in the statement of profit and loss according to their type (e.g., depreciation, purchases of materials, salaries, advertising, etc.) and are not reallocated among the various functions within the enterprise. On the other hand, the functional or "cost of sales" method classifies expenses according to their function as part of cost of sales, distribution, or administrative activities, for example. | The statutory annual accounts in India comprise the balance sheet, the statement of profit and loss, cash flow statement and the notes thereto. The format and the level of disclosure in the financial statements follow the requirements of the Indian Companies Act, 1956. | The primary financial statements required under U.S. GAAP comprise not only the balance sheet and the statements of profit and loss, but also a statement of cash flows, a statement of changes in shareholders' equity and a statement of comprehensive income.<br>The functional or "cost of sales" method is generally required under US GAAP for the statement of profit and loss classification. |
| 15. | Preoperative and preliminary expenditure | Costs directly related to the construction activity can be capitalised. These costs would typically comprise employee costs of the network department, network planning and implement charges in respect of the network roll out etc. All other indirect costs in the nature of startup costs would need to be expensed in the year in which they are incurred. | Expenditure incurred from the date of incorporation to the date of commencement of commercial operations at various locations not directly attributable to fixed assets is treated as deferred revenue expenditure.<br>Expenditure incurred from the date of incorporation to the date of commencement of commercial operations and directly attributable to fixed assets, is capitalised as part of the cost of the respective asset.<br>Deferred revenue expenditure is charged to the profit and loss account on commencement of commercial operations over a period over which the related benefits are expected to accrue to the Company. | AICPA Statement of Position 98-5, relating to accounting treatment of start-up costs, requires all costs incurred in respect of any; one-time activity related to opening a new facility, introducing a new product or service, conducting business in a new territory, conducting business with a new class of customer or beneficiary, initiating a new process in an existing facility, or commencing some new operation; to be expensed as incurred.<br>Costs relating to organising a new entity (commonly referred to as organisation costs) would also fall within the purview of start up costs and would need to be expensed as incurred. However, direct costs such as upfront fees, origination fees, etc incurred in respect of borrowings must be deferred and amortised over the term of the related loan, as an adjustment to the interest rate based on the principles set out in Statements of Financial Accounting Standards 91. |

# STATUTORY AND OTHER INFORMATION

**Consents**

Consents in writing of: (a) the Directors, the Company Secretary, the Auditors, Legal Advisors to the Company, Bankers to the Company and Bankers to the Issue; and (b) Book Running Lead Managers to the Issue, Lead Manager to the Issue, Escrow Collection Bankers and Registrars to the Issue, to act in their respective capacities, have been obtained and filed along with a copy of the Prospectus with the Registrar of Companies, National Capital Territory of Delhi and Haryana, at New Delhi, as required under Section 60 of the Companies Act and such consents have not been withdrawn up to the time of delivery of the offer document for registration.

Price Waterhouse, statutory auditors of the Company for Indian Accounting Standards, and Arthur Andersen & Associates, auditors of the Company for International Accounting Standards, have given their written consents to the inclusion of their auditor's report in the form and context in which it appears in the red herring prospectus and also all financial statements and ratios and such consents and reports have not been withdrawn up to the time of delivery of the red herring prospectus for registration with the Registrar of Companies, National Capital Territory of Delhi and Haryana, at New Delhi.

Price Waterhouse Coopers, Chartered Accountants, have given their written consent to the inclusion of their certificate on the tax benefits accruing to the Company and its members in the form and context in which it appears in the red herring prospectus and has not withdrawn the same up to the time of delivery of the red herring prospectus for registration with the Registrar of Companies, National Capital Territory of Delhi and Haryana, at New Delhi.

**Expert Opinion**

Save as stated elsewhere in the red herring prospectus, the Company has not obtained any expert opinions.

**Changes in Directors and Auditors during the last three financial years and reasons thereof**

Details of changes in Directors during the last years are given below:

| Name | Date of appointment | Date of Cessation | Reason |
|---|---|---|---|
| Sin Hang Boon | December 7, 2001 | - | Appointed |
| Pulak Chandan Prasad | November 22, 2001 | - | Appointed |
| Wong Hung Khim | November 16, 2001 | - | Appointed |
| P.M.Sinha | November 16, 2001 | - | Appointed |
| N.Kumar | November 16, 2001 | - | Appointed |
| Donald Cameron | September 21, 2001 | - | Appointed |
| Chua Sock Koong | May 7, 2001 | - | Appointed |
| Bashir A Currimjee | February 27, 2001 | - | Appointed |
| Lim Toon | November 7, 2000 | - | Appointed |
| Lung Chien Ping | November 7, 2000 | December 4, 2001 | Resignation |
| Ravi Akhoury | October 16, 2000 | - | Appointed |
| Roberto Giardi | November 12, 1999 | September 25, 2000 | Resignation |
| Dalip Pathak | September 22, 1999 | - | Appointed |
| Richard Paul Slogrove | June 11, 1999 | July 10, 2001 | Resignation |
| K.L. Jain | April 3, 1996 | March 25, 2001 | Resignation |
| Antonino Aloia | April 3, 1996 | September 25, 2000 | Resignation |
| Massimo Sarmi | April 3, 1996 | November 12, 1999 | Resignation |

There has been no change in the statutory auditors of the Company during the last three years. Arthur Andersen & Associates has presented the consolidated financial statements of Bharti Tele-Ventures and its subsidiaries in accordance with International Accounting Standards for the years ended March 31, 1999, 2000 and 2001 and for the period ended September 30, 2001 and their audit report dated January 10, 2002 together with consolidated financial statements have been disclosed in this red herring prospectus under "Financial Statements - IAS Consolidated Financial Statements".

**Authority for the Issue**

This Issue has been authorised by a special resolution passed pursuant to Section 81(1A) of the Companies Act, at the annual general meeting of the shareholders of the Company held on September 25, 2001, and a resolution passed by the Board at its meeting held on September 21, 2001.

**Procedure and Time Schedule for Allotment and Issue of Share Certificates**

The Company reserves at its sole, absolute and uncontrolled discretion and without assigning any reason thereof, the right to accept or reject any Bid in whole or in part. In case a Bid is rejected in full, the whole of the Bid Amount will be refunded to the Bidder within 15 days of the Bid Closing Date. In case a Bid is rejected in part, the excess Bid Amount will be refunded to the Bidder within 15 days of the Bid Closing Date. The Company will allot the equity shares within 15 days from the Bid Closing Date, and shall pay interest at the rate of 15% per annum (for any delay beyond the periods as mentioned above), if allotment is not made within 15 days of Bid Closing Date, or if refund orders/ cancelled Stockinvests are not dispatched and/ or demat credits are not made to investors within two working days from the date of allotment. .

**Utilisation of Issue Proceeds**

Pending the utilisation of net proceeds of the Issue as specified under the section "Objects of Offering", the net proceeds will be invested in high quality, interest bearing liquid instruments including deposits with banks for the necessary duration manner.

**Disposal of Applications and Applications Money**

The Company shall dispatch allotment advice, refund orders or cancelled Stockinvest and give benefit to the Beneficiary Account with Depository Participants and submit the allotment and listing documents to the Stock Exchanges within two working days of finalisation of the basis of allotment. The Company shall dispatch refund orders, if any, of value up to Rs.1,500, by "Under certificate of posting", and shall dispatch refund orders above Rs.1,500, if any, by Registered Post or Speed Post at the sole or first bidder's sole risk.

The BRLMs shall ensure that all steps for completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the equity shares are proposed to be listed, are taken within seven working days of finalisation of the basis of allotment.

In accordance with the Companies Act, the Stock Exchange requirements and SEBI Guidelines, the Company further undertakes that:

- Allotment of equity shares shall be made only in dematerialised form within 15 days from the Bid Closing Date;
- It would despatch refund orders/cancelled Stockinvests within 15 days from the Bid Closing Date; and
- It shall pay interest at 15% per annum (for any delay beyond the 15 day time period as mentioned above), if allotment is not made, refund orders/cancelled Stockinvests are not dispatched and/or demat credits are not made to investors within the 15 days time prescribed above.

The Company will provide adequate funds required for dispatch of refund orders or allotment advice to the Registrar to the Issue.

Refunds will be made by cheques, pay orders or demand drafts drawn on a bank appointed by the Company as a refund banker and payable at par at places where bids are received. Bank charges, if any, for encashing such cheques, pay orders or demand drafts at other centres will be payable by the bidders.

No receipt will be issued for the Bid Amount received by the Company. However, the Bankers to the Issue and Syndicate Members receiving the Bid Forms will acknowledge receipt by stamping and returning the acknowledgement slip at the bottom of each form.

**Disposal of Applications made by Stockinvest**

The procedure for disposal of applications made by cash, cheque, pay order or demand draft described above will apply *mutatis-mutandis* to applications accompanied by Stockinvest, except for the following:

- In case of non-allotment, the Registrar to the Issue will return the Stockinvest directly to the bidder with the stamp “CANCELLED” and/or “NOT ALLOCATED” across the face of the instrument within 15 days from the Bid Closing Date.
- On allotment or partial allotment, the Registrar to the Issue shall fill in the amount (which will be less than or equal to the amount filled by the investor) before presenting the Stockinvest to the respective issuing Banker for payment to the extent of allotment. The bank issuing the Stockinvest will lift the lien on the balance amount, if any, of the deposit.

**Interest on refund of excess bid amount**

The Company shall pay interest at the rate of 15% per annum on the excess bid amount received by the Company if refund orders are not dispatched within 15 days from the Bid Closing Date as per the Guidelines issued by the Government of India, Ministry of Finance pursuant to their letter no. F-8/6/SE/79 dated July 21, 1983, as amended by their letter no. F/14/SE/85 dated September 27, 1985, addressed to the Stock Exchanges, and as further modified by SEBI’s Clarification XXI dated October 27, 1997, with respect to the SEBI Guidelines.

**Basis of Allotment or Allocation**

**(A) For Retail Bidders**

- Bids received from the Retail Bidders at or above the Issue Price shall be grouped together to determine the total demand under this category. The allocation to all the successful Retail Bidders will be made at the Issue Price.
- If the aggregate demand in this category is less than or equal to 46,334,175 equity shares at or above the Issue Price, full allocation shall be made to the Retail Bidders to the extent of their demand.
- If the aggregate demand in this category is greater than 46,334,175 equity shares at or above the Issue Price, the allocation shall be made on the proportionate basis up to a minimum of 100 equity shares. For method of proportionate basis of allotment, refer below.

**(B) For the Non-Institutional Bidders**

- Bids received from Non-Institutional Bidders at or above the Issue Price shall be grouped together to determine the total demand under this category. The allocation to all successful Non-institutional Bidders will be made at the Issue Price.
- If the aggregate demand in this category is less than or equal to 27,800,505 equity shares at or above the Issue Price, full allocation shall be made to the Non-Institutional Bidders to the extent of their demand.
- In case the aggregate demand in this category is greater than 27,800,505 equity shares at or above the Issue Price, allocation shall be made on a proportionate basis upto a minimum of 100 equity shares. For the method of proportionate basis of allotment refer below.

The aggregate allocation to (A) and (B) shall not exceed 74,134,680 equity shares.

**(C) For the QIB Bidders**

- Minimum allocation of 111,202,020 equity shares shall be made to the QIB Bidders.
- If the aggregate demand in this category is less than 111,202,020 equity shares, the company shall not be eligible to proceed with the Issue.
- Subject to above paragraphs, the difference between the allocation to Retail and Non-Institutional Bidders in the manner specified in category (A) and (B) above, and the equity shares offered in the Issue, shall be available for allocation to QIB Bidders who have bid in the Issue at a price which is equal to or greater than the Issue Price.
- The allocation would be broadly decided based on the quality of the Bidder determined by the size, price and date of the bid.

The Company, in consultation with the BRLMs, would have the discretion for any allocation.

Any undersubscription in category (A) and (B) above would be allowed to be met with the spill over from other categories.

**Method of Proportionate Basis of Allotment**

In the event the Issue is over-subscribed, the basis of allotment shall be finalised by the Company in consultation with the Delhi Stock Exchange, which is the Regional Stock Exchange. The Executive Director or Managing Director of the Delhi Stock Exchange along with the BRLMs and the Registrar to the Issue shall be responsible for ensuring that basis of allotment is finalized in a fair and proper manner.

The allotment shall be made in marketable lots, on a proportionate basis as explained below:

(a) Bidders will be categorised according to the number of equity shares applied for.

(b) The total number of equity shares to be allotted to each category as a whole shall be arrived at on a proportionate basis which is the total number of equity shares applied for in that category (number of bidders in the category x number of shares applied for) multiplied by the inverse of the over-subscription ratio.

(c) Number of equity shares to be allotted to the successful bidders will be arrived at on a proportionate basis which is total number of equity shares applied for by each bidder in that category multiplied by the inverse of the over-subscription ratio.

(d) In all bids where the proportionate allotment is less than 100 equity shares per bidder, the allotment shall be made as follows:
- Each successful bidder shall be allotted a minimum of 100 equity shares; and
- The successful bidders out of the total bidders for a category shall be determined by draw of lots in a manner such that the total number of equity shares allotted in that category is equal to the number of equity shares calculated in accordance with (b) above.

(e) If the proportionate allotment to an bidder works out to a number that is more than 100 but is not a multiple of 100 (which is the marketable lot), the number in excess of the multiple of 100 would be rounded off to the higher multiple of 100 if that number is 50 or higher. If that number is lower than 50, it would be rounded off to the lower multiple of 100. All bidders in such categories would be allotted equity shares arrived at after such rounding off.

(f) If the equity shares allocated on a proportionate basis to any category are more than the equity shares allotted to the bidders in that category, the remaining equity shares available for allotment shall be first adjusted against any other category, where the allotted shares are not sufficient for proportionate allotment to the successful bidders in that category. The balance equity shares, if any, remaining after such adjustment will be added to the category comprising of bidders applying for minimum number of equity shares.

As the process of rounding off to the nearer multiple of 100 may result in the actual allocation being higher than the shares offered, an oversubscription to the extent of 10% of the net offer to the public can be retained while finalising the allotment.

**Registered Office**

**Bharti Tele-Ventures Limited**
Qutab Ambience, H-5/12
Mehrauli Road
New Delhi 110030
India
Tel. No.: (91 11) 664 1321
Fax No.: (91 11) 664 1327

**Compliance Officer and Company Secretary**

**Mr. Narender Gupta**
**Bharti Tele-Ventures Limited**
Qutab Ambience, H-5/12
Mehrauli Road
New Delhi 110030
Tel. No.: (91 11) 664 1321
Fax No.: (91 11) 664 1327
Email: gupta_n@bhartient.com

**Issue Management Team**

**Book Running Lead Managers to the Issue**

**JM Morgan Stanley Private Limited**
141, Maker Chambers III
Nariman Point
Mumbai 400 021
Tel. No.: (91 22) 230 3030/ 283 1237
Fax No.: (91 22) 204 2137/ 230 1694

**DSP Merrill Lynch Limited**
Mafatlal Centre, 10th Floor
Nariman Point
Mumbai 400 021
Tel. No.: (91 22) 232 8000
Fax No.: (91 22) 232 8079

**Lead Manager to the Issue**

**ABN AMRO Securities (India) Private Limited**
102, Dalamal House
Nariman Point, Mumbai 400 021.
Tel. No.: (91 22) 281 2168
Fax No.: (91 22) 281 2172

**Lead Manager to the Issue**
**ICICI Securities and Finance Company Limited**
41/44, Minoo Desai Marg
Colaba
Mumbai 400 005
Tel. No.: (91 22) 288 2460
Fax. No.: (91 22) 283 7045

**Syndicate Member to the Issue**
**Enam Financial Consultants Private Limited**
801/ 802, Dalamal Towers,
Nariman Point, Mumbai 400 021.
Tel. No.: (91 22) 282 8554
Fax No.: (91 22) 284 6824

**Registrar to the Issue**

**Karvy Consultants Limited**
Karvy House
46, Avenue 4, Street No.1
Banjara Hills, Hyderabad 500 034
Tel. No.: (91 40) 331 2454
Fax. No.: (91 40) 331 1968
Email : bhartitele@karvy.com

**Legal Advisors**

**To the Company**
Pathak & Associates
1st Floor, Dr.Gopal Das Bhavan
28, Barakhamba Road
New Delhi 110 001
Tel. No.: (91 11) 373 8793

**To the Underwriters**
Little & Co.
Central Bank Building, M.G Road
Mumbai 400 023
Tel. No.: (91 22) 265 2739

**Auditors**

**For Indian Accounting Standards**
Price Waterhouse
PwC Centre, Saidulajab
Mehrauli Badarpur Road
Opposite D-Block, Saket
New Delhi 110 030
Tel. No.: (91 11) 652 3760

**For International Accounting Standards**
Arthur Andersen & Associates
2nd Floor, The Capital Court
LSC Phase III, Olof Palme Marg
Munirka
New Delhi - 110 067
Tel. No.: (91 11) 616 5000

**Bankers to the Company**

**Deutsche Bank**
DLF Square, 4th Floor
Jacaranda Marg
DLF City, Phase II
Gurgaon-122002
Haryana

**Citibank N.A.**
Jeevan Vihar Building,
3, Sansad Marg,
New Delhi 110001

**HDFC Bank Limited**
Hindustan Times House, 6th Floor,
18-20 K.G.Marg,
New Delhi 110001

**ABN Amro Bank N.V**
DLF Centre, Sansad Marg
New Delhi - 110 001
Tel. No.: (91 11) 375 5130 / 5407
Fax No.: (91 11) 375 5401

**Standard Chartered Bank**
H-2, Connaught Circus,
New Delhi 110001

**IDBI Bank Limited**
1109 & 1110, Surya Kiran Building,
19, Kasturba Gandhi Marg,
New Delhi 110001.

**Escrow Collection Bankers / Bankers to the Issue**

**Citibank N.A.**
Plot C-61
Bandra Kurla Complex
G-Block, Bandra (East)
Mumbai 400 051

**HDFC Bank Limited**
Sandoz House,
Dr. Annie Besant Road
Worli
Mumbai-400018

**IDBI Bank Limited**
Chaturvedi Mansion
2nd Floor
26/4 Old Palasia
Agra-Bombay Road
Indore-452001

**Deutsche Bank**
Kodak House, 222 Dr D.N. Road
Fort, Mumbai 400 001

**ICICI Bank**
Capital Markets Division
30, Mumbai Samachar Marg
Fort, Mumbai 400 001

**ABN Amro Bank N.V**
DLF Centre, Sansad Marg
New Delhi - 110 001
Tel. No.: (91 11) 375 5130 / 5407
Fax No.: (91 11) 375 5401

**Underwriters**

**JM Morgan Stanley Private Limited**
141, Maker Chambers III,
Nariman Point,
Mumbai 400 021.

**DSP Merrill Lynch Limited**
Mafatlal Centre 10th Floor
Nariman Point
Mumbai 400 021.

**ABN AMRO Securities (India) Private Limited**
102, Dalamal House
Nariman Point,
Mumbai 400 021.

**ICICI Securities and Finance Company Limited**
41/44, Minoo Desai Marg,
Colaba,
Mumbai 400 005.

**Enam Financial Consultants Private Limited**
801/802 Dalamal Towers,
Nariman Point, Mumbai 400 021.

**Brokers to the Issue**

All members of the recognised stock exchanges would act as Brokers to the Issue.

**Minimum subscription:**

If the Company does not receive the minimum subscription of 90% of the Issue amount including devolvement of Syndicate Members, if any, within 60 days from the Bid Closing Date or if the subscription level falls below 90% after the bid closing date on account of cheques having been returned unpaid or withdrawal of applications, the Company shall forthwith refund the entire subscription amount received. If there is delay beyond 78 days from Bid Closing Date in refund of such subscription, the Company shall pay interest @15% per annum. If there is any delay in refund of amount collected, the Company and its Directors shall be jointly and severally liable to repay the amount due by way of refund with interest @15% per annum for the delayed period beyond 78 days from the Bid Closing Date.

**Expenses of the Issue**

The expenses of the Issue payable by the Company inclusive of brokerage, fees payable to the BRLMs, Advisors to the Issue, fees of Legal Advisors, stamp duty, printing, publication, advertising and distribution expenses, bank charges, fees payable to the Registrars to the Issue, listing fees and other miscellaneous expenses is estimated to be approximately 6% of the Issue size, and will be met out of the proceeds of the Issue.

**Fees Payable to the Book Running Lead Managers**

The total fees payable to the Book Running Lead Managers will be as per the Memorandum of Understanding signed with the respective Book Running Lead Managers, copies of which are available for inspection at the Registered Office of the Company.

**Fees Payable to the Registrar to the Issue**

The fees payable to the Registrar to the Issue will be as per the Memorandum of Understanding signed with the Company, copies of which are available for inspection at the Registered Office of the Company.

The Registrar will be reimbursed for all relevant out-of-pocket expenses including such as cost of stationery, postage, stamp duty, communication expenses. Adequate funds will be provided to the Registrar to the Issue to enable them to send refund orders or allotment advice by registered post.

**Underwriting Commission, Brokerage and Selling Commission**

The underwriting commission and selling commission for the Issue is as set out in the Syndicate Agreement among the Book Running Lead Managers and Syndicate Members.

The underwriting commission shall be paid as set out in the Syndicate Agreement based on the Issue Price and underwritten in the manner mentioned elsewhere in the red herring prospectus. For further details see “General Information”.

**Previous Rights and Public Issues**

The Company has not made any public issue (including any public rights issue) since its inception.

**Issues otherwise than for Cash**

Except as stated in the red herring prospectus under "Capital Structure", the Company has not issued any equity shares for consideration otherwise than for cash.

**Outstanding Debenture or Bond Issues**

Except as stated in the red herring prospectus under "Description of Certain Indebtedness", there are no other outstanding debentures or bonds.

**Outstanding Preference Shares**

The Company does not have any outstanding preference shares.

**Commission and Brokerage on Previous Issues**

No sum has been paid or is payable as commission or brokerage for subscribing to or procuring for, or agreeing to procure subscription for any of the equity shares of the Company since its inception.

**Capitalisation of Reserves or Profits**

Pursuant to the resolutions passed by the shareholders of the Company in the annual general meetings held on January 6, 1997 and September 25, 2001, 49,999,000 and 1,516,390,970 fully paid-up equity shares, respectively, were allotted by way of bonus in the ratio of 49,999 shares for every equity share and ten shares for every equity share, respectively, held by the then existing shareholders. The bonus shares have been issued by capitalisation of balance in the share premium account. For further details, see "Capital Structure".

Save for the above-mentioned capitalisation, the Company has not capitalized its reserves or profits at any time.

**Option to Subscribe in the Issue**

The Company has not given any option to subscribe for any equity shares of the Company.

**Purchase of Property**

Except as stated in the "Objects of Offering" in this red herring prospectus, and save in respect of the property purchased or acquired or to be purchased or acquired in connection with the business or activities contemplated by the objects of the offering, there is no property which has been purchased or acquired or is proposed to be purchased or acquired which is to be paid for wholly or partly from the proceeds of the present Issue or the purchase or acquisition of which has not been completed on the date of this red herring prospectus, other than property, in respect of which:

- the contract for the purchase or acquisition was entered into in the ordinary course of business, nor was the contract entered into in contemplation of the Issue, nor is the Issue contemplated in consequence of the contract; or
- the amount of the purchase money is not material.

Except as stated in this red herring prospectus, the Company has not purchased any property in which any of its promoter and/or directors, have any direct or indirect interest in any payment made thereunder.

**Interest of Promoters and Directors**

Except as otherwise stated elsewhere in this red herring prospectus, the promoter, Bharti Telecom, does not have any interest in the business of Bharti Tel-Ventures, except to the extent of the investments made by it in Bharti Tele-Ventures and earning returns thereon. For further details, see "Financial Statements – IAS Consolidated Financial Statements – Related Party Transactions" and notes to "Indian Accounting Standards Unconsolidated Financial Statements".

All the Directors of Bharti Tele-Ventures may be deemed to be interested to the extent of fees, if any, payable to them for attending meetings of the board or committee thereof as well as to the extent of other remuneration, reimbursement of expenses payable to them under the Articles of Association. The wholetime directors are interested to the extent of remuneration paid to them for services rendered as officer or employee of the Company. All the Directors may also be deemed to be interested to the extent of equity shares, if any, already held by them or their relatives in Bharti Tele-Ventures, or that may be subscribed for and allotted to them, out of the present Issue in terms of the red herring prospectus and also to the extent of any dividend payable to them and other distributions in respect of the said equity shares.

The Directors may also be regarded as interested in the equity shares, if any, held by or that may be subscribed by and allotted to the companies, firms and trust, in which they are interested as directors, members, partners and/or trustees.

Except as stated otherwise in the red herring prospectus, the Company has not entered into any contracts, agreements or arrangements during the preceding two years from the date of the red herring prospectus, in which the directors are interested directly or indirectly and no payments have been made to them in respect of these contracts, agreements or arrangements or are proposed to be made to them. For further details, see "Financial Statements – IAS Consolidated Financial Statements – Related Party Transactions" and notes to "Indian Accounting Standards Unconsolidated Financial Statements".

**Revaluation of Assets**

The Company has not revalued any of its assets since its inception.

**Classes of Shares**

The authorized share capital of the Company is Rs.25,000 million, which is divided into 2,500 million equity shares of face value of Rs. 10 each.

**Payment or Benefit to Promoters or Officers of the Company**

Except as stated otherwise in this red herring prospectus under "Financial Statements – IAS Consolidated Financial Statements – Related Party Transactions" and notes to "Indian Accounting Standards Unconsolidated Financial Statements", no amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to any promoter or officers of Bharti Tele-Ventures except the normal remuneration for services rendered as directors, officers or employees.

# MAIN PROVISIONS OF THE ARTICLES OF ASSOCIATION OF THE COMPANY

The main provisions of the Articles of Association of the Company (hereinafter referred to as 'the Articles') *inter alia* are as under:

***Capital & Increase and Reduction Of Capital***

*Articles*

2. The Authorised Share Capital of the Company is INR 25,000,000,000 (Rupees Twenty Five Billion) divided into 2,500,000,000 (Two Billion Five Hundred Million) Equity Shares of INR 10 (Rupees Ten) each."

3. Subject to the provisions of Section 81 of the Act and these Articles, the shares in the capital of the company for the time being shall be under the control of the Directors who may issue, allot or otherwise dispose of the same or any of them to such persons, in such proportion and on such terms and conditions and either at a premium or at par or (subject to the compliance with the provision of Section 79 of the Act) at a discount and at such time as they may from time to time think fit and with the sanction of the company in the General Meeting to give to any person or persons the option or right to call for any shares either at par or premium during such time and for such consideration as the Directors think fit, and may issue and allot shares in the capital of the company on payment in full or part of any property sold and transferred or for any services rendered to the company in the conduct of its business and any shares which may so be allotted may be issued as fully paid up shares and if so issued, shall be deemed to be fully paid shares. Provided that option or right to call of shares shall not be given to any person or persons without the sanction of the company in the General Meeting.

3A. **FURTHER ISSUE OF SHARES**

1. Where at the time after the expiry of two years from the formation of the company or at any time after the expiry of one year from the allotment of shares in the company made for the first time after its formation, whichever is earlier, it is proposed to increase the subscribed capital of the company by allotment of further shares either out of the unissued capital or out of the increased share capital then:

   a. Such further shares shall be offered to the persons who at the date of the offer, are holders of the equity shares of the company, in proportion, as near as circumstances admit, to the capital paid up on those shares at the date.

   b. Such offer shall be made by a notice specifying the number of shares offered and limiting a time not less than thirty days from the date of the offer and the offer if not accepted, will be deemed to have been declined.

   c. The offer aforesaid shall be deemed to include a right exercisable by the person concerned to renounce the shares offered to them in favour of any other person and the notice referred to in sub clause (b) hereof shall contain a statement of this right. PROVIDED THAT the Directors may decline, without assigning any reason to allot any shares to any person in whose favour any member may renounce the shares offered to him.

   d. After expiry of the time specified in the aforesaid notice or on receipt of earlier intimation from the person to whom such notice is given that he declines to accept the shares offered, the Board of Directors may dispose off them in such manner and to such person(s) as they may think, in their sole discretion, fit.

2. Notwithstanding anything contained in sub-clause (1) thereof, the further aforesaid may be offered to any persons (whether or not those persons include the persons referred to in clause (a) of sub-clause (1) hereof) in any manner whatsoever.

   a. If a special resolution to that effect is passed by the company in General Meeting, or

   b. Where no such special resolution is passed, if the votes case (whether on a show of hands or on a poll as the case may be) in favour of the proposal contained in the resolution moved in the general meeting (including the casting vote, if any, of the Chairman) by the members who, being entitled to do so, vote in person, or where proxies are allowed, by proxy, exceed the votes, if any, cast against the proposal by members, so entitled and voting and the Central Government is satisfied, on an application made by the Board of Directors in this behalf that the proposal is most beneficial to the Company.

3. Nothing in sub-clause (c) of (1) hereof shall be deemed;

   a. To extend the time within which the offer should be accepted; or

   b. To authorise any person to exercise the right of renunciation for a second time on the ground that the person in whose favour the renunciation was first made has declined to take the shares comprised in the renunciation.

4. Nothing in this Article shall apply to the increase of the subscribed capital of the company causes by the exercise of an option attached to the debenture issued or loans by the company :

   a. To convert such debentures or loans into shares in the company; or

   b. To subscribe for shares in the company (whether such option is conferred in these Articles or otherwise).

   PROVIDED THAT the terms of issue of such debentures or the terms of such loans include a term providing for such option and such term :

   a. Either has been approved by the Central Government before the issue of the debentures or the raising of the loans or is in conformity with Rules, if any, made by the Government in this behalf; and

   b. In the case of debentures or loans or other than debentures issued to or loans obtained from Government or any institution specified by the Central Government in this behalf, has also been approved by a special resolution passed by the company in General Meeting before the issue of the debentures or raising of the loans.

4. The Company may, subject to and in accordance with the provisions of Section 76 and other applicable provisions (if any) of the Act, at any time, pay a commission to any persons in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares in or debentures of the company or his procuring or agreeing to procure subscription, whether absolute or conditional for any share in, or debentures of the Company. The commission may be satisfied by the payment of the cash or the allotment of fully or partly paid shares or debentures or partly in the one way and partly in the other subject to the applicable provisions, if any, of the

Act. The Company may also, on any issue of shares or debentures pay such brokerage as may be lawful, and usual or reasonable.

5. Subject always to Article 138, with the previous authority of the Company in General Meeting and upon otherwise complying with Section 79 and other applicable provisions, if any, of the Act, the Board may issue at a discount any shares of a class already issued.

6. The money (if any) which the Board shall, on the allotment of any shares being made by them, require or direct to be paid by way of deposit, call, or otherwise, in respect thereof, shall immediately on the insertion of the name of the allottee in the Register of Members as the name of the holder of such shares become a debt due to and recoverable by the Company from the allottee thereof and shall be paid by him accordingly.

7. If by the conditions of allotment of any shares, the whole or part of the amount of issue price thereof shall be payable by installments, every such installment shall, when due, be paid to the Company by the person, who, for the time being, shall be the registered holder of the shares or by his executors or administrator.

8. Save as herein otherwise provided and subject to Section 187(C) of the Act, the Company shall be entitled to treat the registered holder of any share as the absolute owner thereof and accordingly shall not, except as ordered by a court of competent jurisdiction, or as required by statutes be bound to recognise any equitable or other claim to or interest in such share on the part of any other person.

9. a) The Company may from time to time, by ordinary resolution increase the authorised Share Capital by such sum, to be divided into Shares of such amount as may be specified in the resolution.

   b) Except so far as otherwise provided by the conditions of issue or by these presents, any Capital raised by the creation of Issues of new shares shall be considered to be part of the then existing capital, and shall be subject to the provisions herein contained.

10. If, owing to any inequality in the number of new shares to be issued, and the number of shares held by Members entitled to have the offer of such new shares, any difficulty shall arise in apportionment of such new shares or any of them amongst the Members, such difficulty shall, in the absence of any direction in the resolution creating or issuing the shares or by the Company in General Meeting, be determined by the Board.

11. The Company may, subject to the provisions of Sections 100 to 105 (both inclusive) of that and other applicable provisions, if any, of the Act from time to time by special resolution, reduce its capital and any capital redemption reserve account or premium account in any manner for the time being authorised by law and in particular capital may be paid off on the footing that it may be called up again or otherwise, and the Company may, if and as far as is necessary, alter its Memorandum and Articles of Association by reducing the amount of its share Capital and of its shares accordingly. Provided that such special resolution shall not be necessary in case of application of share premium account in the manner authorised by Section 78 of the Act.

12. In accordance with provisions of Section 94 of the Act, the Company in General Meeting may by ordinary resolution from time to time subdivide or consolidate or cancel any of its shares, in such manner as it may think fit. The Company in General Meeting may also subject to the provisions of the Act, determine by ordinary resolution that as between the holders of the share resulting from each sub division one or more of such share shall have some preferential or special rights as regards dividends, payment of capital or otherwise.

13. Subject to the provisions of Sections 100 to 104 (both inclusive) of the Act, the Board may accept from any Member the surrender on such terms and conditions as shall be agreed, of all or any of his shares.

***Variation of Shareholders' Rights***

*Articles*

14. a) If at any time the share Capital is divided into different classes of shares, rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may, subject to the provisions of Sections 106 and 107 of the Act and whether or not the Company is being wound up, be varied with the consent in writing of the holders of three fourths of the issued shares of that class, or with the sanction of a special resolution passed at a separate General Meeting of the holders of the shares of that class. To every such separate General Meeting, the provisions of these Articles relating to General Meeting shall, to the extent consistent, apply.

    b) The rights conferred upon the holders of the shares of any class with preferred or other rights shall not, unless otherwise expressly provided by terms of the issue of the shares of that class, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

***Certificate of Shares***

*Articles*

15. Every member shall be entitled, without payment, to one or more certificates in marketable lots, for all the shares of each class or denomination registered in his name, or if the Directors so approve (upon paying such fee as the Directors may from time to time determine) to several certificates, each for one or more of such shares and the company shall complete and have ready for delivery such certificates within three months from the date of allotment, unless the conditions of issue thereof otherwise provide, or within one month of the receipt of application of registration of transfer, transmission, sub-division, consolidation or renewal of any of its shares as the case may be. Every certificate of shares shall be under the seal of the company and shall specify the number and distinctive numbers of shares in respect of which it is issued and amount paid-up thereon and shall be in such form as the directors may prescribe or approve, provided that in respect of a share or shares held jointly by several persons, the company shall not be borne to issue more than one certificate and delivery of a certificate of shares to one of several joint holders shall be sufficient delivery to all such holder.

16. If any certificate be worn out, defaced, mutilated or torn or if there be no further space on the back for endorsement of transfer, then upon production and surrender thereof to the Company, a new Certificate may be issued in lieu thereof, and if any certificate lost or destroyed then upon proof thereof to the satisfaction of the company and on execution of such indemnity as the company deem adequate, being given, a new Certificate in lieu thereof shall be given to the party entitled to such lost or destroyed Certificate. Every Certificates under the Article shall be issued without payment of fees if the Directors so decide, or on payment of such fees (not exceeding Rs.2/- for each certificate) as the Directors shall prescribe. Provided that no fee shall be charged for issue of new certificates in replacement of those which are old, defaced or worn out or where there is no further space on the back thereof for endorsement of transfer.

Provided that notwithstanding what is stated above the Directors shall comply with such Rules or Regulation or requirements of any Stock Exchange or the Rules made under the Act or the rules made under Securities Contracts (Regulation) Act, 1956 or any other Act, or rules applicable in this behalf.

The provisions of this Article shall mutatis mutandis apply to debentures of the Company.

***Calls***

*Articles*

17. The Board may from time to time, subject to the terms on which any shares may have been issued, and subject to the provisions of Section 91 of the Act, make such calls as the Board thinks fit upon the Members in respect of all moneys unpaid on the shares held by them respectively and not by the conditions of allotment thereof made payable at fixed time, and such Member shall subject to his having been given at least thirty days notice specifying the time or times and place of payment, pay the amount of every call so made on him to the persons and at the times and places so appointed by the Board. A call may be made payable by instalments and shall be deemed to have been made at the time when the resolution of the Board authorising such call was passed at a meeting of the Board.
18. If by the terms of issue of any share or otherwise any amount is made payable at any fixed time or by instalments at fixed times whether on account of the nominal amount of the share or by way of premium, every such amount or instalment shall be payable as if it were a call duly made by the Board and of which due notice has been given, and all the provisions herein contained in respect of calls, forfeiture or otherwise shall relate to such amount or installment accordingly.
19. If the sum payable in respect of any call or instalment be not paid on or before the day appointed for payment thereof, the holder for the time being of the shares in respect of which the call shall have been made, or the instalments shall be due shall pay interest for the same at the rate of fifteen per-cent per annum or such lower rate of interest as the Board may determine from time to time from the day appointed for the payment thereof till the time of actual payment. The Board shall be at liberty to waive payment of any such interest either wholly or in part.
20. On the trial or hearing of any action or suit brought by the Company against any Shareholder or his legal representatives to recover any debt or money claimed to be due to the Company in respect of his shares, it shall be sufficient to prove that the name of defendant is or was, when the claim arose, on the Register of Members of the Company as a holder, or one of the holders of the number of shares in respect of which such claim is made, that the resolution making the call is duly recorded in the Minute Book and that the amount claimed is not entered as paid in the books of the Company and it shall not be necessary to prove the appointment of the Board who made any call, or that a quorum was present at the Board meeting at which any call was made nor that such meeting was duly convened or constituted, nor any other matter whatsoever but the proof of the matters aforesaid shall be conclusive evidence of the debt.
21. Neither a judgment in favour of the Company for calls or other moneys due in respect of any shares nor any part payment or satisfaction thereunder nor the receipt by the Company of a portion of any money which shall from time to time be due from any Member to the Company in respect of his shares either by way of principal or interest nor any indulgence granted by the Company in respect of the payment of any such money, shall preclude the Company from proceeding to enforce forfeiture to such shares as hereinafter provided.
22. No member shall be entitled to exercise any voting rights either personally or by proxy at any meeting of the Company in respect of any shares registered in his name on which any calls or other sums presently payable by him have not been paid or in regard to which the Company has exercised any right of lien.
23. The Directors may, if they think fit, subject to the provisions of Section 92 of the Act, agree to and receive from any member willing to advance the same whole or any part of the moneys due upon the shares held by him beyond the sums actually called for, and upon the amount so paid or satisfied in advance, or so much thereof as from time to time exceeds the amount of the calls then made upon the shares in respect of which such advance has been made, the company may pay interest at such rate, as the member paying such sum in advance and the Directors agree upon provided that money paid in advance of calls shall not confer a right to participate in profits or dividend. The Directors may at any time repay the amount so advanced.

    The members shall not be entitled to any voting rights in respect of the moneys so paid by him until the same would but for such payment, become presently payable.

    The provisions of these Articles shall mutatis mutandis apply to the calls on debentures of the Company.

***Forfeiture and Lien***

*Articles*

24. If any member fails to pay any call or instalment of a call on or before the day appointed for the payment of the same, the Board may, at any time, thereafter during such time as the call or instalment remains unpaid serve notice on such Members requiring him to pay the same, together with interest that may have accrued and all expenses that may have been incurred by the Company by reason of such non-payment.
25. The notice shall name a day (not being less than thirty days from the date of the notice) and a place or places on and at which such call or instalment and such interest and expenses as aforesaid are to be paid. The notice shall also state that in the event of non-payment at or before the time and at the place appointed, the shares in respect of which such call was made or instalment is payable will be liable to be forfeited.
26. If the requirements of any such notice as aforesaid be not complied with, any share in respect of which such notice has been given may, at any time thereafter before payment of all calls or installments, interests and expenses due in respect thereof, be forfeited by a resolution of the Board to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited shares and not actually paid before the forfeiture.
27. When any share shall have been so forfeited, notice of the resolution shall be given to the Member in whose name it stood immediately prior to the forfeiture and an entry of the forfeiture, with the date thereof shall forthwith be made in the Register, but no forfeiture shall be in any manner invalidated by any omission or neglect to give such notice or to make such entry as aforesaid.

28. Any share so forfeited shall be deemed to be the property of the Company and the Board may sell, re-allot or otherwise dispose of the same in such manner as it thinks fit.

29. The Board may, at any time before any share so forfeited shall have been re-allocated or otherwise disposed of, annul the forfeiture thereof upon such conditions as it thinks fit.

30. A person whose share has been forfeited shall cease to be a Member in respect of the share, but shall notwithstanding such forfeiture, remain liable to pay, and shall forthwith pay to the Company all calls, or instalments, interests and expenses owing upon or in respect of such share at the time of the forfeiture, together with interest thereon from the time of the forfeiture, until payment at fifteen per-cent per annum or at such lower rate as the Board may from time to time determine and the Board may enforce the payment thereof, or any part thereof, without any deduction or allowance for the value of the shares at the time of forfeiture, but shall not be under any obligation to do so.

31. A duly verified declaration in writing that the declarant is a Director, Manager or Secretary of the Company and has been authorised by a Board Resolution to act as declarant and that certain shares in the Company have been duly forfeited on a date stated in the declaration shall be conclusive evidence of the facts therein stated as against all persons claiming to be entitled to the shares and such declaration and the receipt of the Company for the consideration, if any, given for the shares on the sale or disposition thereof shall constitute a good title to such shares and the person to whom any such share is sold shall be registered as the holder of such share and shall not be bound to see the application of purchase money, nor shall his title to such share be affected by any irregularity or invalidity in the proceedings in reference to such forfeiture, sale or disposition.

32. The forfeiture provisions of these Articles and Articles 36 to 38 hereof shall apply in the case of non-payment of any sum which by the terms of issue of a share becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

33. The Company shall have a first and paramount lien upon all the shares / debentures (other than fully paid-up shares / debentures) registered in the name of each member (whether solely or jointly with others) and upon the proceeds of sale thereof for all moneys (whether presently payable or not) called or payable at a fixed time in respect of such shares / debentures and no equitable interest in any share shall be created except upon the footing and condition that this Article will have full effect. And such lien shall extend to all dividends and bonuses from time to time declared in respect of such shares / debentures. Unless otherwise agreed the registration of a transfer of shares / debentures shall operate as a waiver of the Company's lien if any, on such shares / debentures. The Directors may at any time declare any shares / debentures wholly or in part to be exempt from the provisions of this clause.

34. For the purpose of enforcing such lien, the Board may, sell the shares in such manner as it thinks fit, but no sale shall be made until the sum in respect of which such lien exists is presently payable and until a notice in writing of the intention to sell has been served on such Member, the executor or administrator or other legal representative as the case may be and default has been made by him or them in the payment of the money called or payable at a fixed time in respect of such share for thirty days after the date of such notice.

Provided the Board may at any time declare any share to be wholly or in part exempt from the provisions of this Article.

Provided further that unless otherwise agreed, the registration of a transfer of shares shall operate as a waiver of the Company's lien, if any on such shares.

36. The net proceeds of the sale shall be received by the Company and after payment of the costs of such sale, applied in or towards payment of such part of the amount in respect of which the lien exists as is presently payable, and the residue, if any, shall (subject to a like lien for sums not presently payable as existed upon the share before the sale) be paid to the persons entitled to the share at the date of the sale.

37. Upon any sale after forfeiture or for enforcing lien in the purported exercise of the powers hereinbefore given, the Board may appoint some persons to execute an instrument of transfer of the share sold and cause the purchaser's name to be entered in the Register in respect of the share sold, and the purchaser shall not be bound to see to the regularity of the proceedings or to the application of the purchase money and after his name has been entered in Register in respect of such shares, the validity of the sale shall not be impeached by any person and the remedy of any person aggrieved by the sale shall be damages only.

38. Where any share under the powers in that behalf herein contained is sold by the Board and the certificate in respect thereof has not been delivered to the Company by the former holder of such share, the Board may issue a new certificate for such share distinguishing it in such manner as it may think fit from the certificate not so delivered up. On the issue of such certificate the original certificate in respect of such share shall stand automatically cancelled and be void.

***Dematerialisation of Securities***

*Articles*

39A. 1. Definition(s) for the purpose of this Article :

(i) 'Beneficial Owner' shall mean beneficial owner as defined in clause (a) of sub-section (1) of Section 2 of the Depositories Act, 1996.

(ii) 'Depositories Act 1996' shall include any statutory modification or re-enactment thereof.

(iii) 'Depository' shall mean a Depository as defined in clause (e) of sub-section (1) of Section 2 of the Depository Act, 1996.

(iv) 'SEBI' means the Securities and Exchange Board of India established under Section 3 of the Securities and Exchange Board of India Act, 1992.

(v) 'Security' means such security as may be specified by SEBI from time to time.

(vi) 'Member' means members of the Company holding a share or shares of any class and includes the beneficial owner in the records of the Depository.

(vii) 'The Register' means the Register of Members to be kept in pursuant to the Companies Act and where shares are held in dematerialised form 'The Register' includes the Register of Beneficial owners maintained by a Depository.

2. Notwithstanding anything contained in these Articles, the Company shall be entitled to dematerialise its existing shares, debenture and other securities, rematerialise its shares, debentures and other securities held in the Depositories and/ or offer its fresh shares, debentures and other securities, in a dematerialised form pursuant to the Depositories Act, 1996 and the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996.
3. Every person subscribing to securities offered by the Company shall have the option to receive security certificates or to hold the securities with a depository. Such a person who is the beneficial owner of the securities can at any time opt out of a Depository, if permitted by the law, in respect of any security in the manner provided by the Depositories Act, and the Company shall, in the manner and within the time prescribed, issue to the beneficial owner the required Certificate of Securities.

   If a person opts to hold his security with a depository, the Company shall intimate such depository the details of allotment of the security, and on receipt of the information, the depository shall enter in its record the name of the allottee as the beneficial owner of the security.
4. All securities held by a depository shall be dematerialised and be in fungible form. Nothing contained in Sections 153, 153A, 153B, 187B, 187C and 372A of the Companies Act, 1956, shall apply to a depository in respect of the securities held by it on behalf of the beneficial owners.
5. Notwithstanding anything to the contrary contained in the Act or these Articles, a depository shall be deemed to be the registered owner for the purposes of effecting transfer of ownership of security on behalf of the beneficial owner.

   Save as otherwise provided above, the depository as the registered owner of the securities shall not have any voting rights or any other rights in respect of the securities held by it.

   The beneficial owner of securities shall be entitled to all the rights and benefits and be subject to all the liabilities in respect of his securities, which are held by a depository.
6. Notwithstanding anything in the Act or these Articles to the contrary, where securities are held in a depository, the records of the beneficial ownership may be served by such depository on the Company by means of electronic mode or by delivery of floppies or discs.
7. Notwithstanding anything contained in these Articles, every holder of shares in or debentures of the Company may at any time nominate in the manner prescribed under the Act, a person to whom his shares in or debentures of the Company shall vest in the event of his death. Such nomination and right of nominee to be registered as holder of shares/ debentures as the case may be or for transfer of the shares/ debentures as the case may be shall be governed by the provisions of Section 109A and 109B and other applicable provisions of the Companies Act, 1956.
8. Nothing contained in Section108 of the Act or these Articles shall apply to a transfer of securities effected by transferor and transferee both of whom are entered as beneficial owners in the records of a depository.
9. Nothing contained in the Act or these Articles regarding the necessity of having distinctive numbers for securities issued by the Company shall apply to securities held in the depository mode.

***Transfer and Transmission of Shares***

*Articles*

39. Save as provided in Section 108 of the Act, transfer of a Share shall not be registered unless a proper instrument of transfer duly stamped and executed by or on behalf of the transferor and by or on behalf of the transferee has been delivered to the Company together with the certificate or, if no such certificate is in existence, with the Letter of Allotment of the share and such other evidence as the Board may require to prove the title of transferor and transferor shall be deemed to remain the holder of such share until the name of the transferee is entered in the Register in respect thereof. Each Signature to such transfer deed shall be duly attested by the signature of one credible witness who shall add his name and address.

    The provisions of Section 111 of the Companies Act, 1956, regarding powers to refuse Registration of Transfer and appeal against such refusal should be adhered to. Provided that registration of transfer shall not be refused on the ground of the transferor being either alone or jointly with any other person or persons indebted to the Company on any account whatsoever except when the company has a lien on the shares. Transfer of shares / debentures in whatever lot shall not be refused.
41. The instrument of transfer shall be in writing and all provisions of Section 108 of the Companies Act, 1956 and statutory modification thereof for the time being shall be duly compiled with in respect of all transfer of shares and registration thereof.
43. No transfer shall be registered in favour of a person of unsound mind and no transfer of partly paid shares shall be registered in favour of a minor.
44. Every instrument of transfer shall be deposited at the office of the Company for registration, accompanied by the documents and evidence as required under these Articles.
45. On giving not less than seven days previous notice by advertisement in some newspaper circulating in the district in which the Registered Office of the Company is situated subject to the provisions of Section 154 of the Act, registration of transfer may be closed or suspended during such time and for such periods not exceeding in the aggregate forty five days in each year, but not exceeding thirty days at any one time as the Board may from time to time determine.
46. In case of the death of a Member, the survivor, where the deceased was a joint holder, and his legal representative, executor or administrator where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest in the shares; but nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share which had been jointly held by him with other persons. The Board may require any persons becoming entitled to shares in consequence of the death of any Member to obtain a Grant of Probate or Letter of Administration or other legal representation, as the case may be, from a Competent Court. Provided it shall be lawful for the Board in its absolute discretions to dispense with the production of Probate or Letter of Administration or such other legal representation upon such terms as to indemnify or otherwise as the Board may think fit, without in any case being bound to do so. The powers and discretions of the Board under this Articles may be delegated and exercised by a Committee of Directors or an officer of the Company duly authorised in this regard.

No fee shall be charged for registration of transfer, transmission, Probate, Succession Certificate and Letters of administration, Certificate of Death or Marriage, Power of Attorney or similar other document.

47. Any committee or guardian of a person of unsound mind or minor or any person becoming entitled to the transfer of a share in consequence of the death or bankruptcy or insolvency of any Member or by any other lawful means, upon producing such evidence that he sustains the character in respect of which he purposes to act under this Article or of his title as the Board thinks sufficient, may subject to the right of the Board to decline registration under Article 43 of these Articles, elect either:

    i) To be registered himself as a holder of the share, or

    ii) To make such transfer of shares as the deceased or the insolvent Member could have made.

48. The Board may, subject to the provisions of the Act, retain the dividends payable upon a share to which any person becomes entitled under these Articles, until such person or his transferee shall become a Member in respect of such shares.

49. (1) If the person so becoming entitled under the Transmission Article shall elect to be registered as holder of the share himself, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.

    (2) If the person aforesaid shall elect to transfer the share, he shall testify his election by executing an instrument of transfer of the share.

    (3) All the limitations, restrictions and provisions of these Articles relating to the right of transfer and the registration of instruments of transfer of shares shall be applicable to any such notice or transfer as aforesaid as if the death, lunacy, bankruptcy or insolvency of the Member or transmission or devolution of his share by any other lawful means had not occurred and the notice of transfer was a transfer signed by that Member.

50. Every transmission of a share shall be verified in such manner as the Board may require and the Company may refuse to register any such transmission until the same be so verified or until or unless an indemnity be given to the Company with regard to such registration, which the Board at its discretion shall consider sufficient, provided nevertheless there shall not be any obligation on the Company or the Board to accept any indemnity.

51. A person so becoming entitled under the Transmission Article to a share by reason of the death, lunacy, bankruptcy or insolvency of the holder thereof or by any other lawful means shall, subject to the provisions of these Articles be entitled to the same dividends and other advantages to which he would be entitled as if he were the registered holder of the share except that no such person shall, before being registered as a Member in respect of the share, being entitled to exercise in respect thereof any right conferred by membership in relation to meetings of the Company. Provided that the Board may at any time give notice requiring any such person to elect either to be registered himself as a Member in respect of such share or elect to have some person nominated by him registered as a Member in respect of such share subject to the right of the Board to decline registration under Article 44 of these Articles and, if such notice is not complied with within ninety days, the Board may thereafter withhold payment of all dividends, bonuses or other moneys payable in respect of the share, until the requirements of the notice have been complied with.

52. Subject to the provisions of the Securities and Exchange Board of India Act, 1992 and regulations framed or guidelines issued thereunder and the listing agreement with the Stock Exchanges on which the equity shares of the Company are listed, neither the Company nor any of its Directors or other Officers shall incur any liability or responsibility whatsoever in consequence of its registering or giving effect to any transfer of a share made or purporting to be made by any apparent or legal owner thereof as shown or appearing in the Register of Members to the prejudice of persons having or claiming any equitable right, title or interest to or in such share, notwithstanding that the Company may have had notice of such equitable right, title or interest or notice prohibiting registration of such transfer and may have entered any such notice or referred thereto in any book or record of the Company and the Company shall not be bound or required to regard to attend or give effect to any such notice nor be under any liability whatsoever for refusing or neglecting so to do though it may have been entered or referred to in some book or record of the Company, but the Company shall nevertheless be at liberty to regard and attend to any such notice and give effect thereto, if the Board shall so think fit."

53. The provisions of these Articles shall mutatis mutandis apply to the transfer or transmission by operation of law of debentures or other securities of the Company.

54. Where two or more persons are registered as the holder of any share, they shall be deemed (so far as the Company is concerned) to hold the same as joint tenants with benefits of survivorship, but so that:

    (a) The Company shall be entitled to decline to register more than four persons as joiners of any share, and

    (b) The joint holders of any share shall be liable severally as well as jointly for and in respect of all calls or installments and other payments which ought to be made in respect of such share.

55. Any one of the joint holders of a share may give effectual receipts for any dividends or other moneys payable in respect of such share or bonus share.

56. (1) Only the person whose name stands first in the Register of Members as one of the joint holders of any share shall unless otherwise directed in writing by all joint holders and confirmed in writing by the Company be entitled to delivery of the certificate relating to such share or to receive notices (which expression shall be deemed to include all documents) from the Company and any notice given to or served on such persons shall be deemed as a notice or service to all the joint holders.

    (2) Subject to the provisions of these Articles, the person first named in the Register as one of the joint holders shall be deemed as a sole holder thereof for all the matters connected with the Company.

57. Any one of the joint holders of a share may vote at any meeting personally or by proxy as if he were a sole holder thereof provided that if more than one joint holder of the share is present personally or by proxy then such of them whose name stands higher in the Register in respect of such share shall alone be entitled to vote in respect thereof.

76. The following Principles shall apply to the Transfer of Shares

    (a) All Transfers shall be consummated pursuant to the relevant provisions of applicable Law (including, without limitation, Section 108 of the Act and, to the extent applicable, the relevant provisions of the Foreign Exchange Management Act. 1999, the New Industrial

Policy, 1991 and the National Telecom Policy, each as amended (including, by way of example, approval of the Indian Authorities in the event of any Share Transfer to or from resident Indian ownership).

(b) The provisions of these Articles shall remain binding and in full force and effect upon each Shareholder until such Shareholder owns any Shares or, in the case of Bharti until Bharti or any of its Affiliates own any Shares.

77. No Transfer by a transferee Shareholder of the Shares hereunder shall relieve such Shareholder of any of its liabilities and obligations to the other Shareholders or any party which arise or accrue prior to the completion of such Transfer.

***Listing and Public Offer***

*Articles*

79. (a) Subject to applicable law, in any public offering of Shares (including the IPO) Brentwood and the STI Shareholder shall have the right to include all or part of the Shares held by either Brentwood and/or the STI Shareholder, as the case may be, in such public offering.

(b) The Company shall use its reasonable efforts to complete a public offering of Shares on a Relevant Stock Exchange prior to October 31, 2001. In the event that the Company is unsuccessful, unwilling or otherwise fails to complete a public offering of Shares on a Relevant Stock Exchange prior to the end of January 2002, so long as Brentwood's Shareholding is not less than 12,500,000 Shares, Brentwood shall have the right, and so long as the STI Shareholder's Shareholding is not less than 12,500,000 Shares, the STI Shareholder shall have the right, subject to the provisions of this Agreement, to transfer all or part of its Shareholding through a listing, and by causing the Company, upon three (3) months notice, to undertake an Initial Public Offering of the Shares held by Brentwood and/or the STI Shareholder, as the case may be, on a Relevant Stock Exchange in accordance with any applicable law or Regulatory Authority. The Shareholders agree to procure that each of its nominee, including Directors nominated by it, shall act to give effect to this to the fullest extent permitted by applicable laws.

(c) If either Brentwood and/or the STI Shareholder, as the case may be, decides to exercise its rights contained in this Article, the Company shall be responsible for:

(i) all fixed costs and expenses in connection with such public offering and any variable costs as they relate to any Shares other than those held by any Shareholder being offered as part of such public offering;

(ii) preparing the offering document and marketing materials required in connection with a successful public offering of any Shares held by Brentwood and/or the STI Shareholder, as the case may be. All such offering documents and marketing materials shall be prepared by the Company in form and substance that is acceptable to Brentwood and/or the STI Shareholder, as the case may be, and its counsel; and

(iii) providing such representations and warranties and indemnities that the Company could reasonably be expected to provide solely on those aspects of the public offering which the Company alone is in a position to be able to represent and warrant, that may be expected to successfully effect any public offering of any Shares held by Brentwood and/or the STI Shareholder, as the case may be. For the purposes of clarity and avoidance of doubt, neither Brentwood nor the STI Shareholder shall in any event be required to provide any indemnity to any Person in connection with any such public offering.

80. In the event an IPO is undertaken by the Company, the Shareholders and the Company shall evaluate and discuss in good faith possible amendments to the Articles in order to contribute to the successful completion of the IPO.

***Certain Covenants***

*Articles*

81. Shareholding thresholds

Where any provision of these Articles refers to the ownership of a certain number or percentage of Shares, then, for the avoidance of doubt, in calculating whether such threshold has been met by a Company Shareholder the Shareholding or Direct Shareholding, as the case may be, of any of such Company Shareholders' Permitted Transferees shall be aggregated, without duplication, with such Company Shareholders' Shareholding or Direct Shareholding, as the case may be.

82. Intentionally omitted.

82A. Consents and Approvals for Share Transfers

If the Transfer of any Shares by any Shareholder requires any consent, authorisation, approval and permit from, or the making of any filing or notice to, any other Person or governmental, quasi-governmental and regulatory body, agency and authority necessary and appropriate to permit such Transfer under applicable law (including, without limitation, any approval required from SEBI, the Reserve Bank of India, the Foreign Investment Promotion Board of India and the Department of Telecommunications), the Shareholders shall ensure that the Company, prior to such Transfer, is provided with such consent, authorisation, approval or permit or proof of making such filing or notice.

82B. Distributions

Notwithstanding any provision of these Articles, the Company will use its best efforts to ensure that distributions made with respect to the Shares are treated as dividends consistent with the operations of its business in the ordinary course and with the accounting method and principles then in use.

82C. Limitation on Dividend/Indebtedness Restrictions

Notwithstanding any provisions of these Articles, the Company will not, and will not permit any of its Subsidiaries, if any, to directly or indirectly, create or otherwise cause or suffer to exist or become effective any Encumbrance or restriction on the ability of the Company or any such Subsidiary (i) to pay dividends or make any other distributions on its capital stock or any other interest or participation in its profits owned by the Company or any Subsidiary of the Company, except for (x) Encumbrances or restrictions existing under or by reason of applicable law and (y) Encumbrances or restrictions which are ordinary and customary with respect to the type of indebtedness being incurred by the Company or such Subsidiary (under the relevant circumstances) or (ii) to exchange any equity security of the Company for a debt security of the Company.

82D. Consents and Approvals for Payments

If the declaration or payment to any Shareholder of any dividend, premium, liquidation value or equity redemption on or with respect to Shares requires any consent, authorisation, approval or permit from, or the making of any filing or notice to, any other Person or governmental, quasi-governmental or regulatory body, agency or authority necessary or appropriate to permit such declaration or payment under applicable law (including, without limitation, any approval required from the Reserve Bank of India in connection with the conversion of dividends payable to such Shareholder into foreign currencies and the payment of such foreign currency amounts to such Shareholder), the Company shall ensure that it is provided with such consent, authorisation, approval or permit or proof of making such filing or notice for or on behalf of such Shareholder.

82E. Amendments to Effect Initial Public Offering

Each of the Company Shareholders agrees to review at the time of the Initial Public Offering, any changes to these Articles (including without limitation the rights of all Parties) that are recommended by the investment bankers lead-managing the Initial Public Offering that may improve the marketability or valuation of the Initial Public Offering.

82F. Bharti Group and STI Group

(a) Each of BTL and the Company covenant that where any obligation in this Agreement is an obligation of any Person of the Bharti Group, they will each, jointly and severally, procure that each such Person and all other members of the Bharti Group act in accordance with the terms of this Agreement.

(b) The STI Shareholder covenants that, where any obligation in this Agreement is an obligation of the STI Group, it will procure that each other member of the STI Group acts in accordance with the terms of this Agreement.

83 Right of Refusal for Investment Opportunity

Any opportunity, procured by or offered or granted to, or offered or granted by, a member of the STI Group, on the one hand, or a member of the Bharti Group, on the other hand (such member, the "Granting Party") relating to a proposed or potential investment in a business in India involving mobile, fixed or international telecommunications (including international voice telephony business activities) or DLDO (including any Corporate Data Network Service and any investment in an existing telecommunications business in which BTL or the Company has an investment or interest) shall first be offered by such Granting Party to the Company for investment by the Company on the same terms offered or granted by or to such Granting Party (either directly or indirectly through any of its Subsidiaries in which it owns more than 50% of the voting shares of interest). In the event the Company fails to provide written evidence of its intention to pursue such opportunity within 21 days of being offered the same, such Granting Party shall then offer, in the case such Granting Party is a member of the Bharti Group, to the members of the STI Group, and in the case such Granting Party is a member of the STI Group, to the members of the Bharti Group (excluding Bharti BT Internet) (each such member receiving such offer, an "Offeree") an opportunity to participate along with such Granting Party in such investment (upon mutually agreeable terms) and in the event such Offeree fails to provide written evidence of its intention to pursue such opportunity within 14 days of being offered the same, such Granting Party may pursue such investment opportunity alone or with another third party. So long as Brentwood's Shareholding is not less than 12,500,000 Shares, at any time prior to August 6, 2002, if the Company fails to pursue an investment opportunity offered to it under this Article 83 then none of the Bharti Group (other than the Company and its Subsidiaries) may pursue or participate in such investment. Provided that in the event that such opportunity is rejected solely due to the negative vote of Brentwood where both Bharti and the STI Shareholder vote in favour of the Company pursuing such opportunity the restriction on the Bharti Group shall not apply. For the sake of clarity, if the opportunity is rejected by the Company as a result of a negative vote by Bharti and/or the STI Shareholder then irrespective of whether Brentwood approves or disapproves the offer, none of the Bharti Group (other than the Company and its Subsidiaries) may pursue or participate in such investment.

84. Non-compete with the Company's DLDO Business

In the event that the Company, either directly or indirectly through a Subsidiary as provided in Article 83 above, makes an investment in a DLDO business in India, the STI Group and the members of the Bharti Group other than the Company and such Subsidiary (if any) through which such investment has been made shall not compete with the Company and such Subsidiary in the DLDO business in India so long as each of the following conditions has been satisfied:

(a) the Company has received and maintains all necessary Governmental Authorisations and licenses, including all necessary approvals and licenses from the Department of Telecommunications, Government of India, for conducting DLDO business in India;

(b) the Company directly controls more than 50% of the voting interest of and operates any DLDO business in which it is involved;

(c) such DLDO business becomes operational within 2 years of the licence being granted or making the investment, whichever is the earlier; and

(d) such DLDO business is and remains operational.

85. Non-compete with the Company's Corporate Data Network Service Business

In the event that the Company, either directly or indirectly through a Subsidiary as provided in Article 83, makes an investment in a business in India that provides Corporate Data Network Services, the STI Group and the members of the Bharti Group, other than the Company and such Subsidiary (if any) through which such investment has been made, shall not compete with the Company and such Subsidiary in Corporate Data Network Services in India so long as each of the following conditions has been satisfied:

(a) the Company has received and maintains all necessary Governmental Authorisations and licenses for conducting such Corporate Data Network Services in India;

(b) the Company directly controls more than 50% of the voting interest of and operates any Corporate Data Network Service Business in which it is involved;

(c) such Corporate Data Network Service business becomes operational within 1 year of the licence being granted or making the investment, whichever is the earlier; and

(d) such Corporate Data Network Service business is and remains operational.

86. Non-compete with the Company's Mobile Business

In the event that the Company, either directly or indirectly through a Subsidiary as provided in Article 83 above, makes an investment or has already made an investment in a Mobile Business, the STI Group and the members of the Bharti Group, other than the Company and such Subsidiary (if any) through which such investment has been made, shall not compete with the Company and such Subsidiary in such Mobile Business in the Territories so long as each of the following conditions has been satisfied:

(a) the Company has received and maintains all necessary Governmental Authorisations and licenses for conducting such Mobile Business in the Territories;

(b) the Company directly controls more than 50% of the voting interest of and operates any Mobile Business in which it is involved;

(c) such Mobile business becomes operational within 1 year of the licence being granted or making the investment, whichever is the earlier; and

(d) such Mobile Business is and remains operational.

provided that such non-compete obligation shall not restrict STI Group from investing in any Mobile Business outside the Territories notwithstanding that fact that the area in which the STI Group is involved may become a Territory by reason of regulatory change or otherwise and such non-compete obligation shall not apply to the STI Group's operations in such Territory.

87. Non-compete Exceptions

(a) The restriction contained in Article 84 shall not apply to any business arrangements of the STI Group with any person or entity the principal purpose of which is not DLDO but may involve DLDO.

(b) Subject to Article 83, if the Company has not entered into any investment referred to in Article 85, the STI Group shall not be restricted from considering or entering into any business arrangements with any person or entity for the purpose of providing internet-related services that compete, or have the capacity or potential to compete, with DLDO services.

(c) Articles 84, 85 and 86 shall not apply in the event that the Company elects not to pursue an investment opportunity offered to it pursuant to Article 83 in respect of DLDO business, Corporate Data Network Services or Mobile Business (provided that the Company shall not have previously pursued such an investment opportunity (in the case of Mobile Business, in the same Territory) and made such an investment whether offered to it by a Granting Party or otherwise) and either the Granting Party and/or the Offeree elects to pursue such investment opportunity, in which case such Granting Party and/or Offeree, as the case may be shall not be required under Articles 84, 85 and 86, as the case may be, to undertake not to compete with the Company in respect of any subsequent investment made by the Company pursuant to Article 83 (or otherwise) in any DLDO business, Corporate Data Network Services or with the Company in respect of any subsequent investment by the Company in the same Territory in any Mobile Business, as the case may be. For the avoidance of doubt, where the Granting party or Offeree, as the case may be, makes an investment in a Mobile Business, such business shall not be in competition with a Mobile Business operated by the Company in a different Territory simply because such business provides service to mutual customers or where competition arises as a result of regulatory change.

(d) The STI Group shall have no obligations under Articles 83, 84, 85 and 86, from the date that is 182 days from the day on which the STI Shareholder ceases to be permitted to appoint a nominee Director in accordance with Article 117(b)(i). The Bharti Group shall not have any obligations under Articles 84, 85 or 86, from the date that is 182 days from the day on which the Bharti Group's Shareholding is less than 20%.

(e) Nothing in these Articles shall apply to any investment or proposed investment by any venture capital fund of the STI Group or to any bonafide portfolio investment related purchases of listed shares in the open market by the STI Group, in each case, which is not more than US$15 million or 2% in aggregate of the total issued and outstanding shares of the relevant investee, and pursuant to which the STI Group does not acquire any management participation rights or any management influence in respect of the investee.

(f) Notwithstanding anything to the contrary, these Articles shall not apply to any Resale Business conducted by the joint venture between the STI Group and Virgin Management Limited ("Virgin/SingTel JV") and/or its Affiliates provided that the STI Group shall ensure that the Virgin/SingTel JV selects the Bharti Group, if so desired by the Bharti Group, as its partner for any joint ventures in the Territories or in India for its Resale Business and as a network provider for telecom infrastructure in connection with its Resale Business, provided that nothing contained in this Article shall affect the ability of the Virgin/Singtel JV to use such selection criteria as would be used by a prudent Telecoms Operator and select, on the basis of such criteria, a joint venture partner other than the Bharti Group if such partner better satisfies the selection criteria.

89. STI Group First Right as Telco Participant.

Each of the Bharti Entities shall grant STI Group a right of first refusal with respect to an opportunity, business or venture in which such Bharti Entity proposes to procure or seek an investment from a Telecoms Operator.

90. Other Co-operation

Each of the Bharti Group and the STI Group shall consider the other as its preferred choice of supplier provided that nothing contained in this Article shall affect either the ability of either group to use such selection criteria as would be used by a prudent international purchaser of such supplies and services or to comply with any other obligations.

91. Group Obligations

The STI Shareholder shall and shall cause the other members of the STI Group (a) to consider each member of the Bharti Group, other than Bharti BT Internet, as its preferred partner in India and (b) to comply with the obligations of the STI Group in these Articles. BTL shall and shall cause the other members of the Bharti Group (a) to consider each member of the STI Group as its preferred partner in India and (b) to comply with the obligations of the Bharti Group in these Articles.

92. The Company Shareholders shall cause the Company to notify the STI Shareholder as soon as the Company is aware that the Company has breached or is likely to breach any Loan Agreement or any other agreement or obligation or any of the Company's lenders are considering exercising their rights under any mortgage, security agreement, hypothecation, pledge, Loan Agreement or other agreement.

***Borrowing Powers***

*Articles*

93. The Board may, from time to time, at its discretion, subject to the provisions of Section 292, 293 and 370 of the Act and of these Articles, accept deposits form Members either in advance of calls or otherwise and generally raise or borrow moneys, either from the Directors, their friends and relatives or from others for the purposes of the company and/or secure the payment of any such sum or sums of money, provided however, where the moneys to be borrowed together with the moneys already borrowed (apart from the temporary loans obtained from the Company's bankers in the ordinary course of business) and then remaining outstanding and undischarged at that time exceed the aggregate, for the time being, of the paid up capital of the Company and its free reserves, that is to say, reserves, not set apart for any specific purposes, the Board shall not borrow such money without the consent of the Company in General Meeting by an ordinary resolution. The Board may raise and secure the payment of such sum or sums in such manner and upon such terms and conditions in all respects as it thinks fits, and in particular by receiving deposits, issue of bonds, debentures, perpetual, redeemable, debenture stock, or any security of the company or by mortgage or charge or other security upon all or any part of the property or undertaking of the Company (both present and future), including its uncalled capital for the time being; provided that the Board shall not give any option or right to any person for making calls on the Shareholders of the Company in respect of the amount unpaid for the time being on the shares held by them, without the previous sanction of the Company in General Meeting.

***Term of Issue of Debentures***

*Articles*

94. Any debentures, debenture-stock or other securities may be issued at a discount, premium or otherwise and may be issued on condition that they shall be convertible into shares of any denomination and with any privileges and conditions as to redemption, surrender, drawing, allotment of shares, attending (but not voting) at the General Meeting, appointment of Directors and otherwise Debentures with the right to conversion into or allotment of shares shall be issued only with the consent of the Company in the General Meeting by a Special Resolution.

***General Meeting***

*Articles*

96. An annual General Meeting shall be held not less than once a year. Except as otherwise set forth herein, all General Meetings (including matters related thereto such as notices, proxies, voting, passing of resolutions, adjournments and the like) shall be governed by the applicable provisions of these Articles and the Act.

98. The Board may whenever it thinks fit, and shall on the requisition of the members in accordance with the provisions of Section 169 of the Act, proceed to call an Extra-Ordinary General Meeting of the Company. The requisitionists may in default of the Board convening the same, convene the Extra-Ordinary General Meeting as provided by Section 169 of the Act. Provided that unless the Board shall refuse in writing to permit the requisitionists to hold the said meeting at the Office, it shall be held at the Office.

***Proceedings of General Meeting***

*Articles*

99. The ordinary business of an Annual General Meeting shall be to receive and consider the Profit and Loss Account, the Balance Sheet and the reports of the Directors and of the Auditors, to elect Directors in place of those retiring by rotation, to appoint Auditors and to fix their remuneration and to declare dividends. All other business transacted at an Annual General Meeting and all business transacted at an Extra-Ordinary General Meeting shall be deemed as Special Business.

100. Subject to applicable Law (in terms of the time period, the matters that may be produced or laid before such meetings and otherwise), the Annual General Meeting of the Shareholders shall be convened by the Board within one hundred and eighty (180) days after the close of each Fiscal Year for the purpose of reviewing an annual report of the Company (the "Annual Report") from the Board (and the Company's auditors) in relation to the immediately preceding Fiscal Year, which shall include a detailed statement on the Company's work-in-progress, its financial and economic status, an audited balance sheet and a profit and loss statement of the Company, the fees of the auditors associated therewith, a proposal for distribution of profits and any other matter(s) set forth in the notice therefore.

101. a) No Business shall be transacted at General Meeting unless quorum is present at the time of the commencement of the business. Save as provided in these Articles, at least five members present in person shall constitute a quorum.

b) If within half an hour from the time appointed for holding the meeting a quorum is not present, the meeting, if convened by or upon the requisition of Members shall stand dissolved, but in any other case, the meeting shall stand adjourned, in accordance with the provisions of sub section (3), (4) and (5) of Section 174 of the Act.

102. Any act or resolution, which under these Articles or the Act is permitted or required to be done or passed by the Company in General Meeting, shall be done or passed by an ordinary resolution as defined in Section 189(1) of the Act, unless either the Act or these Articles specifically require such act to be done or resolution to be passed by a special resolution as defined in Section 180(2) of the Act.

104. (1) The Chairman shall preside at all General Meetings of the Shareholders. In the event the Chairman is absent or fails to serve as presiding officer at any such General Meeting, the Directors present at such meeting shall appoint one of their number to preside in the Chairman's place. In the event of any equality of votes at General Meetings, the Chairman shall not be entitled to a second or tie casting vote.

(2) No business shall be discussed at any General Meeting except the election of the Chairman, whilst the Chair is vacant.

105. (1) The Chairman may, with the consent of the meeting and shall, if so directed by the meeting, adjourn the same, from time to time, and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

(2) When meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting and save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned meeting.

106. (1) Every question submitted to a meeting shall be decided, in the first instance unless a poll is demanded, in accordance with Section 179 of the Act, by a show of hands and in the case of an equality of votes, either on show of hands or on a poll.

(2) A declaration by the Chairman that a resolution has, on a show of hands, been carried or carried unanimously or by a particular majority or lost and an entry to that effect in the minutes shall be conclusive evidence of the fact without further proof.

(3) Any business other than that upon which a poll has been demanded may be proceeded with pending the taking of a poll.

107. (1) On a show of hands, every Member present in person and being a holder of equity shares shall have one vote and every person present as a duly authorised representative of a body corporate being a holder of an equity share shall, if he is not entitled to vote in his own right, have one vote.

(2) On poll, the voting rights of a holder of an equity share shall be as provided in Section 87 of the Act.

108. A company or a body corporate which is a member of the Company (hereinafter called “Member Company”) may vote by proxy or by representative duly appointed in accordance with section 187 of the Act. A person duly appointed to represent the Member Company at any meeting of the Company or at any meeting of any Class of Members of the Company shall be entitled to exercise the same rights and powers (including the right to vote by proxy) on behalf of the Member Company which he represents as that Member Company could exercise if it were an individual Member.

Except as specifically authorised by these Articles or any other agreement in writing among the Shareholders and the Company, no Shareholder or the Company shall have or hold itself out as having any authority or agency to act on behalf of any other Shareholder or the Company (as applicable) in any capacity or in any manner whatsoever, and no Shareholder or the Company shall become liable by reason of any representation, action or omission of any other Shareholder or the Company (as applicable) contrary to the provisions of these Articles.

109. Any person entitled under Article 108 of these Articles to transfer any shares may vote at any General Meeting in respect thereof in the same manner as if he were the registered holder of such shares, provided that forty-eight hours at least before the time of holding the meeting or the adjourned meeting, as the case may be, at which he proposes to vote, he shall satisfy the Board of the right to transfer such shares, or the Board shall have previously admitted his right to vote at such meeting in respect thereof. If any member be a lunatic, idiot or non compos mentis, he may vote whether on a show of hands or at Poll by his committee curator bonds or other legal curator and such last mentioned persons may give their votes in person or by proxy on a poll.

110. Where there are several executors or administrators of a Deceased Member in whose sole name any share is registered, any one of such executors or administrators may vote in respect of such share unless any other of such executors or administrators is present at the meeting at which such a vote is tendered and objects to the vote. In such case, the provisions relating to votes of joint holders contained in Article 57 of these Articles shall apply.

111. A vote given in accordance with the terms of an instrument appointing a proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the instrument, or transfer of the share in respect of which the vote is given, provided no intimation in writing shall have been received by the Company at the Office before the vote is given provided, nevertheless that the Chairman of any meeting shall be entitled to require such evidence as he may in his discretion think fit of the due execution of an instrument of proxy and that the same has not been revoked.

112. Every instrument of Proxy whether for a specified meeting or otherwise shall, as nearly as circumstances will admit, be in either of the forms set out in Schedule IX of the Act.

113. If any such instrument of appointment be confined to the object of appointing an attorney or proxy, it shall remain permanently, or for such time as the Board may determine, in the custody of the Company, if embracing other objects a copy thereof accompanied with the original, shall be delivered to the Company to remain their custody.

114. No objection shall be raised as to the qualification of any voter except at the meeting or adjourned meeting at which the vote objected to is given or tendered, and every vote disallowed at such meeting shall be valid for all purposes. Any such objection or objections as to the admission or rejection of a vote, either on a show of hands, or on a poll made in due time, shall be referred to the Chairman of the meeting who shall forthwith decide the same and such decision shall be final and conclusive.

***Board of Directors***

*Articles*

117. (a) The Company’s management shall be controlled by the Board comprising of not less than eight (8) and not more than Eighteen (18) directors unless a greater number is required in order for BTL to exercise its rights to appoint a majority of Directors in accordance with (b) below or to accommodate the nominee of any financial institution who is a creditor of the company or to accommodate any independent directors required to be appointed in accordance with law or other regulatory or listing requirements or to accommodate the STI Shareholder’s right to nominate that number of directors relative to its proportionate Shareholding pursuant to (b)(i) below.

(b) The Board of Directors shall be appointed and voted for appointment as follows:

(i) On each occasion that the Shareholders vote to elect Directors to the Board, the STI Shareholder shall have the right to nominate such number of Directors to the Board being the higher of (x) the proportion that its Shareholding bears to the then total issued, subscribed and paid up Shares, such number of Directors to be rounded up or down to the nearest whole Director (and in the event such proportionate number has a 0.5 fraction, the number shall be rounded up to the nearest whole Director) and (y) the number of Directors to the Board in accordance with the following formula:

| Direct Shareholding | Number of Directors |
|---|---|
| Not less than 12,500,000 Shares | 1 |
| 15%-25% | 2 |

provided that notwithstanding anything in these Articles to the contrary, if the STI Shareholder's Shareholding is not less than 10% and also STI's Direct Shareholding is not less than 12,500,000 Shares , it shall have the right at all times to nominate at least one Director to the Board.

(ii) On each occasion that the Shareholders vote to elect Directors to the Board, subject to the STI Shareholder's right to appoint at least one Director set forth in sub-article (i) above, BTL shall have the right to nominate such number of Directors to the Board in proportion that the Shareholding of the Bharti Shareholders bears to the then total issued, subscribed and paid up Shares, provided that, if the Direct Shareholding of the Bharti Entities exceeds in aggregate 26%, then BTL shall have the right to nominate that minimum number of Directors as is necessary to constitute a simple majority (that is, 50% of the Directors plus one (1)) of the Board.

(iii) On each occasion that the Shareholders vote to elect Directors to the Board, Brentwood shall have the right to nominate such number of Directors to the Board in accordance with the following formula:

| Direct Shareholding | Number of Directors |
|---|---|
| Not less than 12,500,000 Shares | 1 |
| 15%-25% | 2 |

(iv) The Shareholders agree to exercise their respective voting rights in order to cause the Persons nominated by each of the STI Shareholder, Brentwood and BTL pursuant to this Sub-Article (b) to be duly elected as Directors. Except as otherwise provided in this Article 117, nominations to the Board shall be without restriction, and a Director shall serve at the pleasure of the Company Shareholder who nominates such Director and may be removed or replaced, with or without cause, at any time by the Company Shareholder who nominated him. In the event that a nominee Director appointed by a Company Shareholder shall cease to hold office by virtue of death, resignation, removal or retirement, including, amongst other things, the requirements that the Directors retire in rotation, of a Director, the Company Shareholder who originally nominated such Director shall nominate a successor to serve in accordance with the provisions hereof. The Shareholders shall exercise their respective voting rights as set forth in this Article 117 to cause any such successor to be duly elected as Director of the Company.

(c) Notwithstanding anything contained in sub-Articles (a) and (b) of this Article, the composition of the Board of Directors shall be in accordance with the provisions contained in the Companies Act, 1956 in the event the aggregate shareholding of STI shareholders, Brentwood and Bharti shareholders or their respective successors and assigns together in the Company falls below 51% of the paid up equity share capital of the Company.

118. The following were the first Directors of the Company.

1. Shri Rakesh Bharti Mittal
2. Shri Sunil Bharti Mittal
3. Shri Rajan Bharti Mittal

119. At every Annual General Meeting of the Company one third of such of the Directors for the time being as are liable to retire by rotation in accordance with the provisions of Section 255 of the Act, or if their number is not three or a multiple of three, then the number nearest to one third shall retire from office in accordance with the provisions of Section 256 of the Act.

120. A person who is not a retiring director shall subject to provisions of Section 257 of the Companies Act be eligible for appointment to the office of director at any General Meeting if he or some members intending to propose him have not less than 14 days before the meeting, left at the office of the company a notice in writing under his hand signifying his candidature for the office of director or the intention of such members to propose him as a candidate for that office, as the case may be along with a deposit of five hundred rupees which shall be refunded to such person or as the case may be to such member, if the person succeeds in getting elected as a director.

The Company shall inform its members of the candidature of a person for the office of director or the intention of a member to propose such person as a candidate for the office by serving individual notice, on the member not less than seven days before the meeting.

Provided, that, it shall not be necessary for the company to serve individual notices, upon the members as aforesaid if the company advertises such candidature or intention not less than seven days before the meeting in at least two newspapers circulating in the place where the registered office of the company is located, of which one is published in the English language and the other in the regional language of that place.

121. 1) Each Director, excluding Managing Director and whole time Director, shall be paid for attending every meeting of the Board or a committee thereof, sitting fee as may be determined by the Company in a General Meeting, from time to time within the limits as may be prescribed by the Central Government for payment of sitting fee.

2) Each Shareholder shall reimburse its nominee Director or representative or representatives for all ordinary and reasonable out-of-pocket expenses (including, without limitation, travel expenses) incurred in connection with its function as a Director of the Company.

3) Subject to the provisions of Sections 309 and 310 of the Act, the Directors shall be paid such further remuneration, wherein the form of monthly payment or by a percentage of profit or otherwise, as the Company in General meeting may, from time to time, determine and such further remuneration shall be divided among the Directors in such proportion and in such manner as the board may, from time to time, determine and in default of such determination, shall be divided among the Directors equally, or if so determined paid on a monthly basis.

4) The remuneration of the Director shall, insofar as it consists of a monthly payment, be deemed to accrue from day to day.

Subject to the provisions of Section 198, 309 and 310 of the Act, if any Director be called upon to perform any extra services or make special exertions or efforts (which expression shall include work done by a Director as a member of any committee formed by the Directors) the Board may pay such Director special remuneration for such extra services or special exertions or efforts either by way of a fixed sum or by percentage of profit or otherwise and may allow such Director at the cost and expenses of the Company such facilities or amenities (e.g., rent free house, free medical aid, free conveyance, etc.) as the Board may determine from time to time.

122. The Directors shall not be required to hold any qualification shares in the Company.

123. i) The Board shall have power at any time and from time to time, to appoint a person as a director either to fill up a casual vacancy or as an addition to the Board and any director so appointed shall hold office until the conclusion of the next Annual General Meeting of the Company.

ii) Such person shall, however, be eligible for appointment by the Company at that meeting as a Director after the meeting has, if necessary, increased the number of the Directors.

iii) The Board may agree with any person or a company or a State Financial Corporation on such terms and conditions as may be thought fit that such a person or corporation or company shall have full and absolute right and power exercisable by such person or corporation or company at his/its discretion without the consent or concurrence of any other person to appoint directors, so as to constitute majority on the Board of Directors of the Company with powers to remove any such Director from office on a vacancy being caused whether by retirement, rotation, death, resignation, removal or otherwise and to appoint another Director in his place.

124. If it is provided by any trust deed securing or otherwise in connection with any issue of debentures of the Company that any person or persons shall have power to nominate a Director of the Company then in the case of any and every such issue of debentures, the persons having such power may exercise such power from time to time and appoint a Director accordingly. Any Director so appointed is herein referred to as Debenture Director. A Debenture Director may be removed from office at any time by the persons or persons in whom for the time being is vested the power under which he was appointed and another Director may be appointed in his place. A Debenture Director shall not be liable to retire by rotation.

125. If at any time the Company obtains any loan from any Financial Institution(s) and/or Bank(s) and/or State Government (hereinafter referred to in this article as the Corporation) or enters into underwriting arrangements with the corporation and it is a term of such loan or of the underwriting arrangements, the corporation shall have the right to appoint one or more Directors then, subject to the terms and conditions of such loans or underwriting arrangements, to appoint one or more Directors of the company and to remove from office any Director, so appointed who resigns or otherwise vacates his office. Any such appointment or removal shall be made in writing and shall be signed by the Corporation or by any person duly authorised by it and shall be served at the office of the company. The director or directors so appointed shall not be liable to retire by rotation of directors in accordance with the provisions of these articles.

126. In the course of its business and for its benefit the Company shall, subject to the provisions of the Act, and these Articles be entitled to agree with any person, firm, corporation, government, financing institution or other authority that he or it shall have the right to appoint his or its nominee on the Board of Directors of the Company upon such terms and conditions as the Directors may deem fit. Such nominees and their successors in office appointed under this Article shall be called Special Directors. Special Directors shall be entitled to hold office until requested to retire by the government, authority, person, firm, institution or corporation who may have appointed them and will not be bound to retire by rotation. As and whenever a Special Director vacates office, whether upon request as aforesaid or by death, resignation or otherwise the government, authority, person, firm, institution or corporation who appointed such Special Director may, if the agreement so provide, appoint another Director in its place.

127. Subject to the provisions of Section 313 of the Act, each Board member may also appoint any third person acceptable to such member to represent him as an Alternate Director at Board Meetings and any such Alternate Director may be an employee of the Company.

128. A Director may become a director of any company, promoted by the Company, in which he may be interested as a vendor, shareholder, or otherwise, and no such Director shall be accountable for any benefits received as director or shareholder of such company. Such Director before receiving or enjoying such benefits in cases in which the provisions of Section 314 of the Act are attracted will ensure that the same have been complied with.

129. Every nomination, appointment or removal of a special director shall be in writing and shall in the case of government or authority be under the hand of secretary to such government or authority and in the case of corporation under the hand of a director of such corporation, duly authorised in that behalf by a resolution of its Board of Directors. Subject as aforesaid a Special Director shall be entitled to the same rights and privileges and be subject to the same obligations as any other Director of the Company.

130. The office of a Director shall become vacant:

(i) on the happening of any of the events provided for in Section 283 of the Act;

(ii) on contravention of the provisions of Section 314 of the Act, or any statutory modifications thereof;

(iii) if a person is a Director of more than twenty Companies at a time;

(iv) in the case of alternate Director on return of the original Director to the State in terms of Section 313 of the Act; or

(v) resignation of his office by notice in writing.

131. Every Director present at any meeting of the Board or a committee thereof shall sign his name in block to be kept for that purpose, to show his attendance thereat.

132. None of the Shareholders nor any of the respective Directors, managers, employees, agents or representative shall be held liable by any Shareholder or the Company, and the Company shall indemnify and hold harmless such Person, for or on account of any act or any failure to act by any such person while serving as Director, manager, employee, agent or represent of the Company unless such act or failure to act shall be in bad faith and in wilfull disregard of the duties imposed upon such person by applicable law, any agreement between the Company Shareholders, the Memorandum and the Articles. To the extent it is available and permissible under applicable law, the Shareholders shall cause the Company to, and the Company shall, maintain appropriate insurance coverage and provide for standard

indemnification provisions in the Articles for the Directors, executive officers and other officers and representatives of the Company in relation to the discharge of their respective duties.

***Proceedings of the Board of Directors***

*Articles*

133. The Board shall meet at least once in every three (3) calendar months in each calendar year at such times and in such places as agreed by the Board. No meeting of the Board shall be held unless at least 10 days prior written notice and relevant documentation of such meeting is given to all members of the Board. Provided that a shorter period of notice may be given with the prior written approval of at least three quarter of the total number of the Directors on the Board of the Company. At least 7 days prior to any meeting of the Board an agenda identifying in reasonable detail the matters to be discussed at such Board Meeting shall be given to each of the Directors. The agenda and such other information may be provided less than 7 days prior to a Board meeting with the prior written approval of at least three quarter of the total number of the Directors on the Board of the Company. Except as otherwise set forth herein, all meetings of the Board (including, without limitation, such Board meeting issues as notice, locations, adjournments and the like) shall be governed by the applicable provisions of the Articles and applicable Law. All Board meetings shall normally take place at the registered office of the Company, but may also take place elsewhere within or outside of India. Except as otherwise provided in Article 121(2), the Company shall be responsible for all expenses which may be legally borne in connection therewith, except for any travel and lodging incurred by the Directors on account of such meetings.

All matters submitted to the Board of Directors for a decision shall be decided by a majority of votes.

134. The quorum for any and all meetings of the Board of Directors shall be one-third of the total number of Directors and, at any meeting where a General Reserved Matter is to be discussed, the presence of at least one Director nominated by the STI Shareholder and at least one Director nominated by Brentwood (unless waived in writing by each such Director before the date of such meeting) shall be required to constitute such quorum at such meeting, provided that if either a Director nominated by the STI Shareholder and/or a Director nominated by Brentwood is not present at such meeting of the Board, then the meeting shall be adjourned until the 8$^{th}$ day after such meeting, at the same time and place and at the adjourned meeting a quorum shall be deemed to be present provided at least one-third of the total number of Directors are present at such adjourned meeting, whether or not such Director who was absent is in attendance. Except as otherwise provided under applicable Indian law or Articles 138 and 139, all decisions of the Board of Directors shall require the affirmative vote of a simple majority (the affirmative vote of more than half of the members of the Board) present at a meeting duly convened having the requisite quorum or by a circular resolution sent to each Director as provided under the Companies Act (where a circular resolution is permitted by Indian law). Each Director shall have one vote. If any resolution is passed, or decision is taken, at a meeting of the Board in breach of the provisions of these Articles, such resolution or decision shall be null and void.

Provided that in the event the aggregate shareholding of STI shareholders, Brentwood and Bharti shareholders or their respective successors and assigns together in the Company falls below 51% of the paid up equity share capital of the Company, then the presence of at least one Director nominate by the STI shareholder and at least one Director nominated by Brentwood required to constitute the quorum for General Reserve Matters shall stand withdrawn .

135. The meetings of the Board of Directors of the Company shall be held whenever called by the Chairman or by one of the Directors, at such time and place as may be specified in the respective notices thereof.

Subject to the provisions of the Act, the Board of Directors may participate in a meeting by means of a conference telephone or a video conference telephone or similar communications equipment by which all members participating in the meeting are able to hear and be heard by all other members of the Board without the need for a member to be in the physical presence of another member(s) and participation in the meeting in this manner shall be deemed to constitute presence in person at such meeting. The members participating in any such meeting shall be counted in the quorum for such Board Meeting and subject to there being a requisite quorum under these Articles, all resolutions agreed by the members in such Board Meeting shall be deemed to be as effective as a resolution passed at a meeting in person of the Board members duly convened and held. A Board Meeting conducted by means of a conference telephone or a video conference telephone or similar communications equipment as aforesaid is deemed to be held at the place agreed upon by the members attending the Board Meeting, provided that at least one of the members present at the Board Meeting was at that place for the duration of the Board Meeting.

136. A Director may, and the Manager or Secretary on the requisition of a Director shall, at any time, summon a meeting of the Board.

137. All Directors on the Board shall act in the best interests of the Company and its Subsidiaries and each of the Parties nominating their respective Director nominees shall take all steps to ensure compliance with this provision.

***Powers of the Board of Directors***

*Articles*

138. (a) Subject to the provisions of the Act, the Board of Directors shall decide all matters by the affirmative vote of a simple majority of the Directors present at a meeting duly convened having the requisite quorum or by circular resolution sent to each Director (where a circular resolution is permitted by Indian law); *provided, however*, that:

(b) Subject to the quorum requirements of Article 134, the following matters (each a "General Reserved Matter") shall require the approval of the STI Shareholder and Brentwood, provided that the STI Shareholder's approval shall not be required in the event that at such time, (x) the STI Shareholder's Shareholding is less than 12.5%, and (y) the STI Shareholder's Direct Shareholding is less than 12,500,000 Shares, and Brentwood's approval shall not be required in the event that at such time Brentwood's Direct Shareholding is less than12,500,000 Shares:

(i) any changes to the Memorandum and Articles of Association of the Company or any of its Subsidiaries provided that this Article 138(a) shall not apply to any such changes that are necessary to give effect to the terms of these Articles;

(ii) the taking of any steps relating to the bankruptcy, liquidation, winding-up or dissolution of the Company or any of its Subsidiaries;

(iii) any decision relating to any amalgamation or merger of the Company or any of its Subsidiaries;

(iv) any issuance of new shares in or any issuance of warrants or options to acquire shares or securities convertible to or exchangeable for shares of the Company or any of its Subsidiaries unless, by way of a rights issue to Company Shareholders, provided that the STI Shareholder and/or Brentwood would not be restricted by reason of Indian Law, Regulatory Authority or agreement from exercising all of its rights in respect of such rights issue, or except to the extent covered or envisaged in an Approved Business Plan or by way of a public offering of the shares of the Company or any of its Subsidiaries, provided that, with respect to the STI Shareholder in the case of such public offering, Bharti shall procure that the Bharti Entities provide a prior written guarantee to the STI Shareholder that the STI Shareholder's Shareholding in the Company at the close of such public offering shall, at the STI Shareholder's option, be maintained at not less than 20% of the then issued and outstanding Shares after giving effect to such public offering. In order to comply with the preceding sentence, Bharti shall, at the request of the STI Shareholder, either ensure that sufficient shares are allotted to the STI Shareholder as part of the public offering or cause to be sold to the STI Shareholder from the holdings of the Bharti Group that number of BTL Shares and/or Shares as are necessary to ensure that the STI Shareholder shall maintain at least a 20% Shareholding after giving effect to the public offering. The shares shall be sold to the STI Shareholder at a price agreed, such price not to be above the price of the public offering;

(v) redemption of any of the Company's shares unless such redemption is contemplated between the Company Shareholders on the basis of their respective Shareholding.

(vi) any Encumbrance granted or created by the Company or any of its Subsidiaries in or over its respective assets, properties or rights to or for the benefit of any third party other than the Company and its Subsidiaries or any Person controlled by the Company (for this purpose "control" shall have the meaning provided in the definition of Affiliate);

(vii) the grant by the Company or any of its Subsidiaries of loans or facilities or credit to or the incurrence of any contingent liability on behalf of or for the benefit of any individual or entity in excess of US$50,000 in a single transaction or in aggregate in a series of transaction, unless in the ordinary course of business or to a Subsidiary;

(viii) any acquisition or series of related acquisitions, or any investment or series of related investments, by the Company or any of its Subsidiaries of or in any shares, interest or assets of another Person or any other asset including treasury assets, in excess of US$10,000,000 (ten million) in aggregate unless the investment is one of the permitted investments approved by the Board of Directors (for the avoidance of doubt, the review and approval of all investment guidelines, including guidelines with respect to treasury activities, must be reviewed and approved by the Board);

(ix) commencement of any new business or the participation in a joint venture or similar enterprise by the Company or any of its Subsidiaries that will require funding of more than US$10 million during the first three years of operation of such business, joint venture or enterprise unless it relates to a project approved by the Board;

(x) any declaration or payment of a dividend by the Company or any of its Subsidiaries that deviates from the amount determined in accordance with the Approved Dividend Policy of the Company or any of its Subsidiaries; any declaration or payment of a dividend by the Company or any of its Subsidiaries in the case that there is no Approved Dividend Policy for the Company or such Subsidiary; any establishment of a dividend policy of the Company or any of its Subsidiaries; or any material change to any dividend policy of the Company or any of its Subsidiaries;

(xi) entry by the Company into any transaction or series of transactions having a value in aggregate in excess of US$50,000 with a Shareholder or any other Person related to the Company or a Shareholder, or by any Subsidiary of the Company into any transaction or series of transactions having a value in aggregate in excess of US$50,000 with a shareholder of such Subsidiary or with the Company or another Subsidiary or their respective shareholders or any other Person related to such Subsidiary or its shareholders or related to the Company or another Subsidiary or any of their respective shareholders;

(xii) approval of all annual business plans and budgets for the Company and each of its Subsidiaries ("Approved Business Plan") and approval of any amendments to an Approved Business Plan which may have the effect of:

(A) increasing the overall Debt Equity Ratio, for the period covered by such Approved Business Plan, beyond 2:1; or

(B) increasing the Equity of the Company beyond 10% of the maximum Equity of the Company in the earlier Approved Business Plan.

(xiii) disposal, by way of a transaction or series of transactions of assets by the Company or any of its Subsidiaries (including, in relation to the Company, shares or other interests held by the Company in its Subsidiaries or in any other Persons) unless, other than in respect of shares or other interests held by the Company in its Subsidiaries, the disposal is of assets with a net book value below US$10,000,000;

(xiv) application for any material modification to or cancellation of an existing licence or approval granted by the Department of Telecommunications, Government of India, which has an adverse effect on the Company or any of its Subsidiaries; and

(xv) any material change to any Approved Accounting Policy or financial policy of the Company.

(c) Where any decision is taken by the Board, including in relation to any General Reserved Matter in Article 138, relating to any Subsidiary of the Company, then the Board shall direct the nominee(s) of the Company on the board of directors of such Subsidiary to vote in accordance with such decision and the Company shall, and the Shareholders shall procure that the Company votes in accordance with the decision of the Board at any meeting of the shareholders of such Subsidiary. For the avoidance of doubt, in the case of a decision on a General Reserved Matter, in the event that either or both the STI Shareholder and Brentwood vetos any proposal in accordance with these Articles then the Shareholders shall procure that the Company's nominee director(s) and the Company as a shareholder shall exercise any vote on the board of directors or in a shareholders' meeting, as the case may be, to reject the relevant proposal.

(d) Notwithstanding anything contained in sub-Articles (a) to (c) of this Article, in the event that the aggregate shareholding of STI shareholders, Brentwood and Bharti shareholders or their respective successors and assigns together in the Company falls below

51% of the paid up equity share capital of the Company, then the right to approve the matters as given in sub-Article (b) shall cease to exist.

140. Subsidiaries. The Company agrees to notify the STI Shareholder and Brentwood of the holding of a meeting of directors of any Subsidiary of the Company or New Subsidiary at the same time or earlier as each of the directors of such Subsidiary receives notice and in any event not less than 24 hours prior to such meeting and, at the option of the STI Shareholder and/or Brentwood, to invite the STI Shareholder and/or Brentwood, as the case may be, to be present at such Board Meeting.

140A. Deadlock. In the event that a Deadlock arises in respect of any proposal voted upon by the Board, such Deadlock shall first be reported to the chief executive officer of STI, a Director of Brentwood and the chairman of Bharti for discussion and resolution in good faith. The Board shall hold a meeting to vote again on the matter fourteen (14) Business Days after the first vote on the matter that resulted in the Deadlock, provided, however, that if such matter does not receive the requisite majority vote for approval at such subsequent meeting, such matters shall be deemed not approved.

141. Subject to the provisions of the Act, and these Articles, the Board may from time to time and at any time, delegate any of its powers, other that in respect of any General Reserved Matter, to a Committee(s) consisting of such Director or Directors as it thinks fit, and it may from time to time revoke and discharge any such Committee either wholly or in part, and either as to persons or purposes, but every Committee of the Board formed shall, in the exercise of the powers so delegated, conform to any regulation that may from time to time be imposed on it by the Board. All acts done by such Committee of the Board in conformity with regulations and in fulfillment of purposes of their appointment but not otherwise, shall have the like force and effect as if done by the Board.

142. The meetings and proceedings of any such Committee of the Board shall be governed by the provisions herein contained for regulating the meeting and proceedings of the Board so far as the same are applicable thereto and are not superseded by any regulations made by the Board under these Articles.

143. 1) Subject to the provisions of the Sections 289, 292 and 297 of the Act and to the provisions of these Articles, a resolution passed by circulation, without a meeting of the Board or a Committee of the Board shall be as valid and effectual as a resolution duly passed at a meeting of the Board or a Committee thereof duly called and held.

2) A resolution shall be deemed to have been duly passed by the Board or by a Committee thereof by circulation, if the resolution has been circulated in draft together with the necessary papers, if any, to all the Directors or to all the Members of the Committee at their respective addresses registered with the Company and has been approved by a majority of Directors or Members of the Committee as are entitled to vote on resolution.

144. Subject to the provisions of the Act, the Board shall be entitled to exercise all such powers of the Company and do all such acts and things as the Company is authorised to exercise or do and as are not, by the Act, or any other statute, or by the Memorandum or Articles of Association of the Company required or directed to be exercised or done by the Company in General Meeting, subject nevertheless to these Articles, the Act or any other statute and to such regulations, not inconsistent therewith including regulations made by the Company in General Meeting, but no regulation made by the Company in General Meeting shall invalidate any prior act of the Board which would have been valid if that regulation had not been made.

145. Without prejudice to the general powers enforced by the foregoing Articles and so as not in any way to limit or restrict those powers, and without prejudice to the other powers conferred by these Articles, but subject to the restrictions and provisions contained in the Articles and the Act, it is hereby declared that the Board shall have the following powers, that is to say, power:

a) To pay donations to any individuals or institutions or contribute to any charitable, religious, benevolent, national, political, public or general and other funds not directly relating to the business of the company or the welfare of its employees, any sums the aggregate of which will, in any financial year, not exceed fifty thousand rupees or five per cent of the average net profits of the Company during the three financial years immediately preceding, whichever is greater, and may with the consent of the Company in General Meeting, contribute any sums in excess of such limits.

b) To authorise or empower any Director or Managing Director or Secretary or any other officer of the Company either by name, in virtue of office or otherwise or any other person or persons, either singly or jointly to exercise or perform all or any of the powers, including the power to sub delegate authorities and duties conferred or imposed on the Board by way of these Articles subject to such restrictions and conditions if any and either generally or in specific cases as the Board may think proper.

c) To appoint and at their discretion, remove or suspend such officers, by whatever designation called managers, engineers, experts, legal advisors, solicitors, clerks, agents, salesmen, workmen and other servants or professions for permanent, temporary or special services, as the Board may from time to time think fit and determine their duties, fix their salaries, emoluments and delegate to or confer upon them such power, including the power to sub-delegate authorities and discretions as the Board may think fit.

d) To provide for the welfare of employees or ex-employees or Directors or ex-Directors of the Company and the wives, widows and families of the dependent or connections of such person, by building or contributing to the building of houses, dwelling or by grants of moneys, pensions, gratuities, allowances, bonuses or other payments, or by creating and from time to time subscribing or contributing to provident fund and other funds, associations, institutions or trust and by providing or subscribing or contributing towards places of instruction and recreation, hospitals and dispensaries, medical and other attendance and other assistance, as the Board shall think fit.

***Managing Director(s) and Whole Time Director(s)***

*Articles*

146. Subject to provisions of Section 269, 198 and 309 of the Act, the Board of Directors may from time to time appoint one or more of their

body to the office of Managing Director/s or Whole Time Director/s for a period not exceeding 5 years at a time and on such terms and conditions as the Board may think fit and subject to the terms of any agreement entered into with him, may revoke such appointment. In making such appointments the Board shall ensure compliance with the requirements of the Act and shall seek and obtain such approvals as are prescribed by the Act.

Provided that a Director so appointed, shall not while holding such office, be subject to retirement by rotation but his appointment shall be automatically determined if he ceases to be a Director.

147. The Board may, subject always to Article 138, entrust and confer upon Managing Director/s or Whole Time Director/s any of the power of management which would not otherwise be exercisable by him upon such terms and conditions and with such restrictions as the Board, may think fit, subject always to the superintendence, control and direction of the Board and the Board may from time to time revoke, withdraw, alter, or vary all or any of such powers.

***Secretary***

*Articles*

148. The Board may from time to time appoint, and at its discretion subject to applicable provisions of the Act, if any, remove any person as the Secretary of the Company (hereinafter called the "Secretary") to perform such duties and functions, which by the Act or otherwise are to be performed by the Secretary of the Company, and to execute any other duties and functions, which may from time to time be assigned to the Secretary by the Board. A Director may be appointed as secretary provided that any provision of the Act or these presents requiring or authorising a thing to be done by or to a Director and the Secretary shall not be satisfied by its being done or to the same person acting both as Director and as or in place of, the Secretary.

***The Seal***

*Articles*

149. The Board shall provide for a Seal for the purposes of the Company, and shall have power from time to time to destroy the same and substitute a new seal in lieu thereof, and the Board shall provide for a safe custody of the seal for the time being, and the seal shall never be used except by the authority of the Board or a Committee of the Board previously given.

150. The Common Seal of the Company shall not be used or affixed to any instrument except by the authority of the resolution of the Board or a committee of the Board authorised by it in this behalf and except in the presence of at least one person duly authorised by the Board and such person shall sign every instrument to which the seal of the Company is so affixed in his presence.

***Dividends and Reserves***

*Articles*

151. The profits of the company, subject to any special rights relating thereto created or authorised to be created by these Articles and subject to the provisions of these Articles, shall be divisible among the Members in proportion to the amount of capital paid up on the share held by them respectively. Provided always that subject as aforesaid any capital paid up on a share during the period in respect of which a dividend is declared shall unless the Board otherwise determine, only entitle the holder of such share to a proportionate amount of such dividend as from the date of payment.

152. No dividend shall be paid by the Company in respect of any share except to the registered holder of such share or to his order or to his banker.

153. (1) The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks proper as a reserve or reserves which shall, at the discretion of the Board, be applicable for any purpose to which the profits of the Company may be properly applied including provisions for meeting contingencies or for equalising dividends and pending such application, may at the like discretion, either be employed in the business of the company or be invested in such investments, other than shares of the Company as the Board may, from time to time think fit.

(2) The Board may also carry forward any profits which it may think prudent not to divide, without setting them aside as a reserve.

154. Notice of any dividend that may have been declared shall be given to the persons entitled to share therein in the manner mentioned in the Act and these Articles.

155. No dividend shall bear interest against the Company.

156. The Company may issue a duplicate cheque or dividend warrant or interest warrant on shareholder or holder of debenture furnishing such indemnity or otherwise as the Board may think proper.

157. The Company in General Meeting may declare a dividend to be paid to the Members according to their respective rights and interests in the profits and may, subject to the provisions of Section 207 of the Act, fix the time for payment.

158. No larger dividend shall be declared than is recommended by the Board, but the Company in General Meeting may declare a smaller dividend.

159. The Board may from time to time pay to the Members such interim dividends as appear to the Board to be justified by the financial position of the Company.

160. Subject to the provisions of the Act and these Articles, no dividend shall be payable except in cash. Provided that nothing in this Article shall be deemed to prohibit the capitalisation of profits or reserves of the Company for the purposes of issuing fully paid up Bonus Share or paying up any amount for the time being unpaid on any shares held by the Members of the Company.

161. Dividend may be paid by cheques or warrant or by a payslip or receipt having the force of a cheque or warrant sent through the post to the registered address of the Member or person entitled or in case of joint holders to that one of them first named in the Register in respect of the joint holding or in case of registered shareholder having registered address outside India by telegraphic transfer to such bank as may

be designated from time to time by such Members. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. The Company shall not be liable or responsible for any cheque or warrant or payslip or receipt lost in transmission, or for any dividend lost to the Member or person entitled thereto by the forged endorsement of any cheque or warrant or the forged signature on any payslip or receipt or the fraudulent recovery of the dividend by any other person by any means whatsoever.

162. Any dividend due from the Company to a Member, without the consent of the such Member, be applied by the Company in or towards payment of any money due from time to time to the Company for calls.

162A. Where the Company has declared a dividend but which has not been paid or the dividend warrant in respect thereof has not been posted within 42 days from the date of declaration to any shareholder entitled to the payment of the dividend, the Company shall within 7 days from the date of expiry of the said period of 42 days, open a special amount in that behalf in any scheduled bank called "Unpaid Dividend of ____________________ Limited" and transfer to the said account, the total amount of dividend which remains unpaid or in relation to which no dividend warrant has been posted.

Any money transferred to the unpaid dividend account of the Company which remains unpaid or unclaimed for a period of three years from the date of such transfer, shall be transferred by the Company to the Investor Education and Protection Fund established the Central Government. A claim to any money so transferred to the above fund may be preferred to the Central Government / Committee appointed by the Central Government by the shareholders to whom the money is due.

No unclaimed or unpaid dividend shall be forfeited by the Board.

***Capitalisation***

*Articles*

163. (1) Any General Meeting may, upon the recommendation of the Board, resolve that any moneys standing to the credit of the Share Premium Account or Capital Redemption Reserve Account or any money, investments or other assets forming part of the undivided profits of the Company (including profits or surplus moneys realised on sale of capital assets of the Company) standing to the credit fund or reserve of the Company or in the hands of the Company and available for dividend be capitalised and distributed:

(a) By the issue and distribution, among the holders of the shares of the Company or any of them on the footing that they become entitled thereto as capital in accordance with their respective rights and interests and in proportion to the amount paid or credited as paid thereon of paid up shares, bonds or other obligations of the Company; or

(b) By crediting shares of the Company which may have been issued and are not fully paid up, in proportion to the amounts paid or credited as paid thereon respectively, with the whole or any part of the same remaining unpaid thereon.

(2) The Board shall give effect to such resolution and apply such portion of the profits or Reserve Fund or any other fund as may be required for the purposes of making payments in full or in part for the shares, of the Company so distributed or (as the case may be) for purpose of paying in whole or in part, the amount remaining unpaid on the shares which may have been issued and are not fully paid up provided that no such distribution or payment shall be made unless recommended by the Board and if so recommended, such distribution and payment shall be accepted by such shareholders in full satisfaction of their interests in the paid capitalised sum.

(3) For the purpose of giving effect to any such resolution, the Board may settle any difficulty which may arise in regard to the distribution or payment as aforesaid as they think expedient and in particular they may issue fractional certificates and generally may make such arrangements for the acceptance, allotment and sale of such shares, bonds or otherwise as they may think fit, and may make cash payment to any holders of shares, on the footing of the value so fixed in order to adjust rights and may vest any shares, bonds or other obligations. In trustees upon such trust for adjusting such rights as may seem expedient to the Board.

(4) In cases where some of the shares of the Company are fully paid and others are partly paid, only such capitalisation may be effected by the distribution of further shares in respect of the fully paid shares and by crediting the partly paid shares with the whole or part of the unpaid liability thereon, but so that as between the holders of the fully paid shares and the partly paid share, the sums so applied in the payment of such further shares and in the extinguishment or diminution of the liability on the partly paid shares shall be so applied pro rata in proportion to the amounts then already paid or credited as paid on the existing fully paid and partly paid shares respectively.

(5) Where deemed requisite, a proper contract shall be filed in accordance with Section 75 of the Act, and the Board may appoint any person to sign such contract on behalf of the persons entitled to the dividend or capitalized fund, such appointment shall be effective.

164. A General Meeting may resolve that any surplus money arising from the realisation of any capital assets of the Company or any investments representing the same or any other undistributed profits of the Company be distributed amongst the Members on the footing that they resolve the same as capital.

167. The Company's fiscal year (the "Fiscal Year") shall begin on April 1 of each calendar year and terminate on March 31 of the next calendar year.

168. Except as otherwise provided in these Articles, any right or interest herein, shall not be assignable or transferable by any Shareholder, party or the Company except with the prior written consent of the other Shareholders and the Company, which consent shall not be unreasonably withheld.

169. Accountants. The Company shall at all times retain a nationally recognised and independent accounting firm reasonably acceptable to the Telecom Shareholders as its auditors.

***Fiscal Matters***

*Articles*

170. Audit Committee. The Shareholders shall cause the Company to establish an audit committee and the Parties shall ensure that a representative of the STI Shareholder and Brentwood are each appointed to such audit committee for so long as the STI Shareholder and/ or Brentwood as the case may be is entitled to nominate a Director on the Board subject to the provisions of the Securities and Exchange Board of India Act, 1992 and regulations framed or guidelines issued thereunder and the listing agreement with the Stock Exchanges on which the equity shares of the Company are listed.

All Directors on the Board shall act in the best interest of the Company and its Subsidiaries and each of the Parties nominating their respective Director nominees shall take all steps to ensure compliance with this provision.

***Inspection of Registers***

*Articles*

171. (1) Subject to Article 166 the Board shall from time to time, determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors.

(2) No member not being a Director, shall have any right of inspecting any accounts or books or documents of the Company except as conferred by law or authorised by the Board or by the Company in General Meeting.

***Notices and Documents***

*Articles*

172. All notices of and other communications relating to any General Meeting of the Company or adjourned meeting as the case may be which any Member of the Company or any other persons is entitled to have sent to him shall also be forwarded to the Auditors of the Company, and each of the Auditors shall be entitled to attend any General meeting and to be heard at any General meeting which he attempts on any part of the business which concerns him as Auditor.

173. A notice may be served on the Company or an officer thereof by delivering it at its Registered Office or by sending it to the Company or officer at the Registered Office of the Company by registered post or cable confirmed by registered post. The term notice in these Articles shall include summons, notice, requisition, order or legal process and any documents in relation to or in the winding up of the Company.

174. A notice may be served by the Company on any Member either personally or by sending it by post to him to his registered address, or if he has no registered address in India to the address, if any, within India supplied by him to the Company for giving of notice to him.

175. Notice of every General Meeting shall in addition to the Members and Auditors of the Company in accordance with the provisions of the Act be given to Directors of the Company.

176. Any accidental omission to give notice to, or the non-receipt of notice by any Member or other person to whom it should be given shall not invalidate the proceedings at the meeting.

177. A document advertised in a newspaper circulating in the neighborhood of the Registered Office of the Company shall be deemed to be fully served on the day on which the advertisement appears on every Member of the Company who has no registered address in India and has not supplied to the Company an address within India for giving of notice to him.

Where a document is sent by post, service thereof shall be deemed to be effected by properly addressing prepaying and posting a letter containing the document and to have been effected in the case of a notice of a meeting at the expiration of 48 hours after the letter containing the same is posted and in any other case, the time at which the letter would be delivered in the ordinary course of post.

178. A document may be served by the Company to the persons entitled to a share in consequence of the death or insolvency of a Member by sending it through the post in a prepaid letter addressed to them by name or by the title of representatives of the deceased, or assignees of the insolvent or by any like description at the address if any in India supplied for the purpose by the persons claiming to be so entitled or until such an address has been so supplied by serving the document in any manner in which the same might have been served if the death or insolvency had not occurred.

179. Any document or notice to be served or given by the company may be signed by a Director or secretary or some person duly authorised by the Board of Directors for such purposes and the signature thereto may be written printed or lithographed or stamped.

180. Save as otherwise expressly provided in the Act, or in these Articles a document or proceeding requiring authentication by the Company may be signed by a director, Chief Executive, the Secretary or a duly Authorised Officer of the Company and need not be under its Seal.

181. Every person who by operation of law, transfer or other means whatsoever shall become entitled to any share shall be bound by every notice in respect of such share which previously to his name and address being entered on the Register has been duly given to the person from whom he derives his title to such share.

182. Subject to the provisions of Articles herein mentioned, any notice or document delivered or sent by post to or left at the registered address of any Member in pursuance of these Article shall notwithstanding such Member be then deceased and whether or not Company has notice of his demise, be deemed to have been duly served in respect of any registered share, whether held solely or jointly with other persons by such Member until some other person be registered in his stead as the holder or joint holder thereof and such service shall for all purposes of these presents be deemed a sufficient service of such notice of document on his or her heirs, executors or administrators and all persons, if any, jointly interested with him or her in any share.

183. Where under any provision of the Act, any person whether a Member of the Company or not is entitled to inspect any register return, certificates, deed, instrument or document required to be kept or maintained by the Company the persons so entitled to inspection shall be permitted to inspect the same during the hours of 11 am to 1 pm on such business days as the Act requires them to be open for inspection subject to such Rules and Regulations as the Board may prescribe from time to time in this behalf.

***Winding Up***

*Articles*

185. Subject to the provisions of the Act and these Articles if the Company shall be wound up and the assets available for distribution among the Members as such assets shall be distributed so that as nearly as may be the losses shall be borne by the Members in proportion to the capital paid up or which ought to have been paid up at the commencement of the winding up on the share held by them respectively. And if in a winding up the assets available for distribution among the Members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members in proportion to the capital at the commencement of the winding up paid up on the shares held by respectively. This clause is however, without prejudice to the rights of the holders of shares issued upon preferential or special terms and conditions.

186. If the Company shall be wound up, whether voluntarily or otherwise, the liquidator may with the sanction of a special resolution, divide amongst the contributories, in specie or kind, the whole or any part of the assets of the Company and may with the like sanction vest the whole or any part of the assets of the Company in trustees upon such trusts for the benefit of the contributories, or any of them as the liquidator, with the like sanction, shall think fit.

***Secrecy Clause***

*Articles*

187. Every Director, Manager, Auditor, Trustee, Member of Committee, Officer, Agent, Accountant or other Person employed in the business of the Company shall if so required by the Board before entering upon his duties, sign a declaration pledging himself or observe a strict secrecy respecting all transactions of the Company with the customers and the state of accounts with individuals and in matters relating thereto, and shall by such declarations pledge himself not to reveal any at the matters which may come to his knowledge in the discharge of his duties except when required so to do by the Board or by any meeting or by a court of law and except so far as may be necessary in order to comply with any of the provisions of these presents contained.

188. Subject to Articles 124 and 137 hereof, no member or other person (other than a Director) shall be entitled to enter the property of the Company or to inspect or examine the Company's premises or properties or the books of accounts of the Company without the permission of the Board of Directors of the Company for the time being or the require discovery of or any information respecting any detail of the Company's trading or any matter which is or may be in the nature of a trade secret, mystery of trade or secret process of any matter whatsoever which may relate to the conduct of the business of the Company and which in the opinion of the Board it will be inexpedient in the interest of the Company to disclose or communicate.

***Indemnity***

*Articles*

196. Every officer or agent for the time being of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings whether civil or criminal in which judgment is given in his favour or in which he is acquitted or in connection with any application under Section 633 of the Act in which relief is granted to him by the court.

Subject to the Section 201 of the Act no Director or other officer of the Company shall be liable for the acts, receipt, neglects of defaults of any other Director or officer or for joining in any receipt or other act for conformity or for any loss or expenses happening to the Company through the insufficiency of title to any property acquired by order of the Directors for or on behalf of the Company or for the insufficiency or deficiency of any security in or upon which any of the moneys of the Company shall be invested or for any loss or damage arising from bankruptcy, Insolvency or tortious Act of any person with whom any moneys, securities or effect shall be deposited or for any loss occasioned by any error or judgment or oversight on his part, or for any other loss, damage or misfortune whatever, which shall happen in this execution of the duties of his officer or in relation thereto.

# MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTIONS

The following contracts (not being contracts entered into in the ordinary course of business carried on by the Company or entered into more than two years before the date of this red herring prospectus) which are or may be deemed material have been entered or to be entered into by the Company. These contracts, copies of which have been attached to the copy of this red herring prospectus have been delivered to the Registrar of Companies, National Capital Territory of Delhi and Haryana for registration and also the documents for inspection referred to hereunder, may be inspected at the registered office of the Company located at Qutab Ambience, H-5/12, Mehrauli Road, New Delhi – 110030, from 10.00 a.m. to 4.00 p.m. on working days from the date of this red herring prospectus until the date of closure of the Issue.

**A. Material Contracts**

1. Letter dated September 10, 2001 from JM Morgan Stanley Private Limited and DSP Merrill Lynch Limited, regarding their appointment as Book Running Lead Managers to the Issue and Bharti Tele-Ventures' acceptance thereto.
2. Memorandum of Understanding between Bharti Tele-Ventures and BRLM - JM Morgan Stanley Private Limited dated November 9, 2001.
3. Memorandum of Understanding between Bharti Tele-Ventures and BRLM - DSP Merrill Lynch Limited dated November 9, 2001.
4. Inter-se allocation of responsibilities between the BRLMs, Lead Managers and Syndicate Member.
5. Letter from Bharti Tele-Ventures dated September 8, 2001 appointing Karvy Consultants Limited as Registrar to the Offering.
6. Memorandum of Understanding between Bharti Tele-Ventures and Karvy Consultants Limited dated November 7, 2001.
7. Underwriting Agreement entered among Bharti Tele-Ventures, the BRLMs and the Syndicate Members.
8. Escrow Agreement entered into with Escrow Collection Banks for Escrow account of the Company in terms of this red herring prospectus.
9. Escrow Agreement entered into with Escrow Collection Banks for Syndicate Escrow account in terms of this red herring prospectus.
10. Syndicate Agreement signed with the BRLMs and Syndicate Members.
11. Letter from Infrastructure Development Finance Company dated November 9, 2001 to act as the Monitoring Agency and copy of Memorandum of Understanding dated January 9, 2002 between Company and Infrastructure Development Finance Company.

**B. Material Documents**

1. The Memorandum and Articles of Association of the Company, as amended from time to time.
2. Certificate of Incorporation of the Company dated July 7, 1995.
3. Certificate of Commencement of Business dated January 18, 1996.
4. Approval from the Central Government dated November 1, 2001 under section 259 of the Companies Act to increase the total number of directors from 12 to 18.
5. License agreements between DoT and the Company's subsidiaries to (i) provide cellular services in 15 circles (ii) fixed-line services in five circles (iii) VSAT (iv) internet services and (v) national long distance services.
6. Letters dated July 22, 1999 from DoT offering Migration package to subsidiary companies and acceptance thereof by respective companies.
7. Letter dated September 25, 2001 from DoT to Bharti Mobile restoring the cellular license of Punjab circle.
8. Infrastructure Provider Category-I (IP-I) license dated October 27, 2000 from DoT to Bharti Telesonic to establish and maintain assets such as dark fiber, right of way, duct space and towers.
9. Shareholder's agreement dated September 12, 2000 entered into with SingTel, Brentwood and Bharti Telecom, as amended pursuant to an amendment agreement dated June 19, 2001.
10. Letter agreement dated February 22, 2001 with NYLIF, agreement dated July 13, 2001 with AIF and agreement dated July 18, 2001 with IFC.
11. Joint venture agreement dated February 12, 1997 between the shareholders of Bharti Mobile.
12. Joint venture agreement dated January 18, 2001 between shareholders of Bharti Aquanet comprising Bharti Tele-Ventures and SingTel i2i Pvt. Limited, as amended pursuant to an amendment agreement dated September 27, 2001. Novation agreement in favour of Bharti Telesonic dated September 28, 2001.
13. Joint venture agreement dated August 12, 1992 among the shareholders of Bharti Mobinet.
14. Resolution of the Board of Directors of the Company, passed at its Meeting held on September 21, 2001 authorising this issue of Equity Shares and resolution of the members of Bharti Tele-Ventures passed at its Annual General Meeting held on September 25, 2001 authorising the Board of Directors to decide the terms and conditions for this Offering.
15. The report of the statutory auditors, Price Waterhouse dated January 11, 2002 prepared as per Indian Accounting Standards and mentioned in the red herring prospectus and copies of balance sheet and profit and loss account of Bharti Tele-Ventures referred to therein.
16. The report of the auditors, Arthur Andersen & Associates dated January 10, 2002 on consolidated accounts of the Company and its subsidiaries, prepared under the International Accounting Standards (IAS) as mentioned in the red herring prospectus.
17. Consent dated January 11 , 2002 from Price Waterhouse and consent dated Jan 10, 2002 from Arthur Andersen & Associates for inclusion of their reports on accounts in the form and context in which they appear in the red herring prospectus.

18. A copy of the tax benefit report dated November 6, 2001 from the auditors Pricewaterhouse Coopers.
19. Certificate dated January 10, 2002 from statutory auditors Price Waterhouse regarding the amounts already spent towards objects of the offering.
20. Consents of Directors, Auditors, Legal Advisors of the Company, Expert named in the red herring prospectus, BRLMs, Syndicate Members, Registrar to the Issue, Bankers to the Issue, Bankers to the Company, Company Secretary and Compliance Officer as referred to in their respective capacities.
21. General Power of Attorney executed by Directors of the Company in favour of person(s) for signing and making necessary changes to the red herring prospectus.
22. Resolution of the Meeting of the IPO committee held on January 8, 2002, authorizing the Registrar to the Issue to sign the Stockinvests on behalf of Bharti Tele-Ventures for realising the proceeds of the Stockinvests.
23. Resolution of the Members of Bharti Tele-Ventures passed at the Annual General Meeting held on September 25, 2001 appointing Price Waterhouse as statutory auditors for the year 2001-2002.
24. Resolution of the Meeting of the Board of Directors held on December 18, 2001, for the formation of audit committee, compensation committee, investor grievances committee etc. in compliance with the listing requirements on corporate governance.
25. Resolution of the Meeting of the Board of Directors held on December 18, 2001, confirming appointment of independent directors.
26. Due diligence certificate dated November 12, 2001 to SEBI from JM Morgan Stanley Private Limited and DSP Merrill Lynch Limited. SEBI observation Letters No. PMD/SNB/42446/2001 dated December 21, 2001, *in-seriatim* reply from JM Morgan Stanley Private Limited dated January 11, 2002 and fresh due-diligence certificates dated January 11, 2002.
27. "In-principle" listing approval for listing the equity shares at Delhi Stock Exchange dated November 27, 2001, The Stock Exchange, Mumbai dated November 28, 2001 and National Stock Exchange of India dated December 18, 2001.
28. FIPB approval letter number dated December 21, 2001 granting approval to the Company to issue equity shares to NRIs/ OCBs/ FIIs.
29. RBI's approval letter dated January 10, 2002 granting approval for issuing equity shares to NRIs / OCBs / FIIs with repatriation benefit.
30. Tripartite agreement between Bharti Tele-Ventures, NSDL and Karvy Consultants Ltd. dated December 29, 2001.
31. Tripartite Agreement between Bharti Tele-Ventures, CDSL and Karvy Consultants Ltd dated January 12, 2002.
32. Resolution of the members of Bharti Tele-Ventures passed at its Annual General Meeting held on September 25, 2001 and copies of the letter dated October 1, 2001 appointing Mr.Sunil Bharti Mittal as Chairman and Managing Director of Bharti Tele-Ventures.
33. Resolution of the members of Bharti Tele-Ventures passed at its Annual General Meeting held on September 25, 2001 and copies of the letter dated October 1, 2001 appointing Mr.Rajan Bharti Mittal and Mr. Akhil Gupta as Joint Managing Directors of Bharti Tele-Ventures.
34. In-principle letters for extending loans to Bharti Tele-Ventures and its subsidiaries by certain lenders.

Bharti Tele-Ventures relied on valuation conducted internally and on valuation reports from external agencies in respect of certain acquistions made by it. The valuation reports prepared by external agencies are confidential and were specifically addressed only to the Board of Directors of the acquiror, and are hence not included as part of the material documents.

Any of the contracts or documents mentioned in this red herring prospectus may be amended or modified at any time if so required in the interest of the Company or if required by the other parties, without reference to the shareholders subject to compliance of the provisions contained in the Companies Act and other relevant statutes.

## DECLARATION

We, the Directors of Bharti Tele-Ventures, hereby declare that all relevant provisions of the Companies Act and the guidelines issued by SEBI have been complied with and no statement made in this red herring prospectus is contrary to the provisions of the said Acts and rules framed thereunder.

**SIGNED BY THE DIRECTORS**

Mr. Sunil Bharti Mittal *

Mr. Rakesh Bharti Mittal *

Mr. Rajan Bharti Mittal *

Mr. Akhil Gupta

Mr. Sin Hang Boon *

Mr. Lim Toon *

Ms. Chua Sock Koong *

Mr. Dalip Pathak *

Mr. Pulak Chandan Prasad *

Mr. Ravi Akhoury *

Mr. Bashir Ali Currimjee *

Mr. Donald Cameron*

Mr. P.M.Sinha *

Mr. N Kumar *

Mr. Wong Hung Khim *
(*Through their constituted attorney Mr. Akhil Gupta)

Date :
Place : New Delhi

## DEFINITIONS AND ABBREVIATIONS

**Conventional Terms**

| | |
|---|---|
| "Bharti Tele-Ventures" or the "Company" | Bharti Tele-Ventures Limited, a public limited company incorporated under the Companies Act |
| "we", "us" and "our" | Unless the context otherwise requires, refer to Bharti Tele-Ventures, its subsidiaries and certain other companies in which Bharti Tele-Ventures owns a controlling interest. Bharti Tele-Ventures' subsidiaries and other companies in which it owns a controlling interest comprise: |
| | Bharti Cellular Limited, or Bharti Cellular; |
| | Bharti Mobile Limited, or Bharti Mobile; |
| | Bharti Telenet Limited, or Bharti Telenet; |
| | Bharti Mobitel Limited, or Bharti Mobitel; |
| | Bharti Mobinet Limited, or Bharti Mobinet; |
| | Bharti Comtel Limited, or Bharti Comtel; |
| | Bharti Telesonic Limited, or Bharti Telesonic; |
| | Bharti Broadband Networks Limited, or Bharti Broadband; |
| | Bharti BT Limited, or Bharti BT; |
| | Bharti BT Internet Limited, or Bharti Internet; |
| | Bharti Tele-Spatial Limited, or Bharti Telespatial; |
| | Bharti Aquanet Limited, or Bharti Aquanet; |
| | SC Cellular Holdings Limited, or SC Cellular; |
| | Welldone Impex (India) Limited, or Welldone; and |
| | JD Projects Limited, or JD Projects. |
| AIF | Asian Infrastructure Fund |
| BellSouth | BellSouth International (Asia/Pacific), Inc. |
| Brentwood | Brentwood Investment Holdings Limited |
| DSS | DSS Mobile Communications Limited |
| Evergrowth | Evergrowth Telecom Limited |
| IFC | International Finance Corporation, Washington |
| Millicom | Millicom International Cellular S.A. |
| NYLIF | New York Life Insurance International India Fund Mauritius / New York Life Insurance Fund Mauritius (LLC) |
| SingTel | Singapore Telecommunications Limited |
| Warburg Pincus | Warburg Pincus LLC |

### Offer Related Terms

| | |
|---|---|
| Articles | Articles of Association of Bharti Tele-Ventures Limited |
| BA | Beneficiary Account. |
| Bid | An offer by a prospective investor to subscribe to Equity Shares of the Company at a designated price, during the Bidding Period and includes all revisions and modifications thereto. |
| Bid Amount | Means the highest value of the optional Bids indicated in the Bid Form and payable by the Bidder on submission of the Bid in the Issue. |
| Bid Closing Date | The date after which the Syndicate Members to the offer would not accept any bids; any such date shall be notified through a notice in a widely circulated English national newspaper, Hindi national newspaper and Regional language newspaper (where the registered office of Bharti Tele-Ventures Limited is situated). |
| Bid Form/Bid cum Application Form | The form in terms of which the Bidder shall make an offer to subscribe to Equity Shares of the Company and which will be considered as the application for allotment of the equity shares in terms of this Red Herring Prospectus. |
| Bid/Issue Opening Date | The date on which the Syndicate Members to the offer would start accepting Bids; such date shall be the date notified and communicated through a notice in a widely circulated English national newspaper, Hindi national newspaper and Regional language newspaper (where the registered office of Bharti Tele-Ventures Limited is situated). |
| Bidder | Any prospective investor who makes a Bid in terms of this Red Herring Prospectus. |
| Bidding Period | The period between the Bid Opening Date and the Bid Closing Date inclusive of both days and during which period prospective investors can submit their Bids. |
| Board | Board of Directors of Bharti Tele-Ventures Limited or a Committee thereof. |
| Book Building Process | Offering under the Book Building route of SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000 read with clarifications issued from time to time. |
| BRLMs | Book Running Lead Managers, in this case being JM Morgan Stanley Private Limited and DSP Merryl Lynch Limited. |
| BSE | The Stock Exchange, Mumbai. |
| CAGR | Compounded Annual Growth Rate. |
| CAN | Confirmation of Allocation Note, means the note or advice or intimation for confirmation of Shares sent to the Bidders who have been allocated Shares in the Issue. |
| CDSL | Central Depository Services Limited. |
| Companies Act | The Companies Act, 1956, as amended from time to time. |
| Depository | Means a depository registered with SEBI under the SEBI (Depositories and Participant) Regulations, 1996. |
| Depositories Act | The Depositories Act, 1996. |
| Designated Date | After filing of the Prospectus with the RoC, the funds would be transferred from the Escrow Account, of the Company to the Public Issue Account following which the Board of Bharti Tele-Ventures would allot shares to investors. The allotment of shares would be completed within 15 days of the Bid / Issue closing date. |
| DP / Depository Participant | Depository Participant as defined under the Depositories Act, 1996. |
| Red Herring document | Means a Prospectus which does not have complete particulars on the price and the quantum of securities offered. It carries the same obligations as are applicable in case of a Prospectus and will be filed with Registrar of Companies at least three days before the opening of the offering. It will become a Prospectus after filing with Registrar of Companies after the pricing and allocation. |
| EPS | Earning Per Equity Share. |
| Escrow Account | Account opened with the Escrow Collection Bank and in whose favour the Bidder will issue cheques in respect of the Bid and in which account the cheques/demand drafts will be deposited by the Syndicate Member(s). |
| Escrow Account of the Syndicate Member | Means that account opened with the Escrow Collection Banks(s) and in whose favour the Bidder will issue cheques or drafts in respect of the Margin Amount at the time of submitting the Bid and such amounts payable on receipt of CAN where the margin rate specified is greater than zero but less than 100%, and in which account the cheques or drafts will be deposited by the Syndicate Member(s). |
| Escrow Collection Bank(s) | The banks at which the Escrow Account will be opened and which will act as such, in terms of this Red herring Prospectus and the Escrow Agreement. |

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| FEMA | Foreign Exchange Management Act, 1999. |
| FII(s) | Foreign Institutional Investors registered with SEBI under applicable laws. |
| Floor Price | Means the price as advertised by the Company prior to the Bid Opening Date and below which the Issue Price will not be finalised and below which the Bidders cannot bid. |
| HUFs | Hindu Undivided Families. |
| I.T. Act | The Income-Tax Act, 1961. |
| IPR | Intellectual Property Rights. |
| Issue / Offering | Public Issue of 185,336,700 equity shares of Rs.10 each, for cash at a premium of Rs.[●] per Equity Share aggregating to Rs.[●] million through 100% book building process. |
| Issue / Offering Price | Means the price determined by the Company, in consultation with the BRLMs on the Pricing Date after the Bidding Period and which shall be set forth in the Prospectus to be filed with the RoC, at which price, the equity shares of the Company offered under this Red Herring Prospectus will be allotted. The Issue Price shall not be lower than the Floor Price. The Issue Price will be advertised within two days of allocation for the Issue in a leading English Daily and a Hindi Daily. |
| Lead Manager | ABN AMRO Securities (India) Private Limited and ICICI Securities and Finance Company Limited |
| Margin Amount | Means the amount arrived at by multiplying the Bid Amount and the Margin Rate applicable to that Bidder and payable on submission of the Bid in the Issue. Such amount shall be deposited into the Escrow Account of the Syndicate Member. |
| Memorandum | Memorandum of Association of Bharti Tele-Ventures Limited. |
| Non-Institutional Investor | All Investors which are not QIBs. |
| NRI(s) | Non-Resident Indian(s) as defined under Indian laws. |
| NSDL | National Securities Depository Limited. |
| NSE | National Stock Exchange of India Limited. |
| OCB(s) | Overseas Corporate Body(ies) as defined under Indian laws. |
| Pay-in-Period | For the Issue, Pay-in-Period means the period commencing on the Bid Opening Date and extending till the Bid Closing Date, during which the bidders have to pay the maximum bid amount into the Escrow Account, unless such requirement is waived by the Syndicate Members. In case of requirement of payment during the Bidding Period is waived by the Syndicate Members, the closure of the Pay-in-Period for such Bidders, for payment into the Escrow Account, shall be subject to a minimum period of two days from date of communication of allocation list of Syndicate Member(s) by the BRLMs. |
| Pricing Date | The date on which the Company in consultation with the BRLMs finalises the Issue Price. |
| Prospectus/Final Offer Document/ Offer Document | The Offer Document filed with the RoC containing *inter alia* the Issue price that is determined at the end of the Book Building process, and the number of equity shares to be issued, Issue Price and other incidental information. |
| Public Issue Account | Account opened with Bankers to the Issue for the purpose of transfer of monies from the Escrow Account on or after the Issue Opening Date. |
| QIBs | Qualified Institutional Buyers shall mean: public financial institutions under section 4A of the Companies Act, scheduled commercial banks, mutual funds, foreign institutional investors registered with SEBI, multilateral and bilateral development financial institutions, venture capital funds registered with SEBI, foreign venture capital investors registered with SEBI and state industrial development corporations. |
| RBI | Reserve Bank of India. |
| Regional Stock Exchange | The Delhi Stock Exchange Association Limited. |
| Registrars | Registrars to the Issue, Karvy Consultants Limited. |
| Retail Bidder(s) | Means the Bidders who are individuals (including NRIs and HUFs) who have not bid for higher than 1,000 equity shares in any of their bidding options in the Issue. |
| Revision Form | The form used by the Bidders to modify the quantity of equity shares or the Bid Price in any of the Bid options as per their Bid Forms and as modified by their subsequent Revision Form(s), if any. |
| RoC | Registrar of Companies, National Capital Territory of Delhi & Haryana at New Delhi. |
| SEBI | Securities and Exchange Board of India constituted under the Securities and Exchange Board of India Act, 1992 (as amended). |
| SEBI Act | Securities and Exchange Board of India Act, 1992 as amended from time to time. |
| SEBI Guidelines | SEBI (Disclosure and Investor Protection) Guidelines, 2000 issued by SEBI on January 27, 2000 read with Clarifications issued from time to time. |

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| Stock Exchanges | Delhi Stock Exchange (Regional Stock Exchange), The Stock Exchange, Mumbai and The National Stock Exchange of India Limited, Mumbai |
| Syndicate | The Book Running Lead Manager Co-Book Running Lead Manager and Syndicate Member(s) |
| Syndicate Members | Collectively comprising of the Book Running Lead Manager, Co-Book Running Lead Manager and the Syndicate Members (as disclosed in the Red herring Prospectus) and are persons who are registered with SEBI and eligible to act as underwriters |
| The Act | The Companies Act, 1956 (as amended from time to time) |
| TRS or Order confirmation note | Transaction Registration Slip, means the slip or document registering the Bids, issued by the Syndicate Member to the Bidder as proof of registration of the Bid upon submission of the Bid Form in terms of this Red herring Prospectus |

**Glossary of Technical and Industry Terms**

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| ABTO | Association of Basic Telecom Operators of India |
| AGR | Adjusted Gross Revenues. Used for computing the license fees and WPC charges payable by a cellular services provider and have been provisionally defined as total income of a cellular services provider less net of access and interconnection charges actually paid to other telecom service providers, roaming revenues passed on to other telecom service providers and service tax and sales tax, if included in the total income. |
| AIN | Advanced Intelligent Network. These are deployed for providing value-added services such as messaging, call forwarding and pre-paid calling. |
| ARPU (for cellular services) | Average Revenue per customer per month. It is calculated by taking the total cellular revenues reduced by access and interconnection costs and dividing it by the average number. of customers during the period (calculated as the average of the sum of the customers at the beginning of the period and at the end of the period). The result so obtained is divided by the number of months in that period. |
| ARPU (for fixed-line services) | Average Revenue per customer per month. It is calculated by dividing the total fixed-line revenues by the average number of customers during the period (calculated as the average of the sum of the customers at the beginning of the period and at the end of the period). The result so obtained is divided by the number of months in that period. |
| ATM | Asynchronous Transfer Mode. It is the next generation of packet switching technology after frame relay, used for voice, data and video transmission, capable of operating in high bandwidth range of 25 megabits to 622 megabits. |
| Adjusted EBITDA | Adjusted EBITDA represents earnings (loss) before depreciation, pre-operating costs, amortization, interest and taxation. In calculating adjusted EBITDA, we have not considered expenses incurred on the new cellular or fixed-line circles currently being developed by us, since we believe, that if such costs are included, it would not accurately represent our operational performance in the existing circles. Adjusted EBITDA is presented because we believe some investors find it to be a useful tool for measuring a company's ability to fund capital expenditures or to service future debts. Adjusted EBITDA is not a standard term in accordance with IAS or Indian Accounting Policies and should not be considered in isolation or as an alternative to net income, as an indicator of operating performance or as an alternative to cash flow as a measure of liquidity. |
| Bandwidth | The capacity of a transmission medium (wire, fiber, air) to pass information (voice, data, images, video). It is usually measured in megahertz or bits per second. |
| Base Station | A multi-circuit transceiver located at the center of a cell whose primary purpose is to handle all incoming and outgoing calls within the cell. |
| BSC | Base Station Controller. Network equipment designed to manage a small network of base stations. |
| BTS | Base Transceiver Stations. The aerial to which cellular telephones transmit their signals, together with the electronics to manage the connection with the telephone and the network. |
| CDMA | Code Division Multiple Access. A wide band spectrum technology that allows multiple conversations across the broadcast spectrum. Each telephone or data call is assigned a unique code that distinguishes it from the multitude of calls simultaneously transmitted over the same broadcast spectrum. This allows a greater bandwidth. |
| Cell | A geographical area served by base stations which is dedicated to transmitting all receiving messages capable of being used while in motion within that area. |
| Cell sites | Physical locations equipped with a base station consisting of transmitters receivers and other equipment used to communicate through radio channels with subscribers' cellular telephone handsets within the range of a cell. |
| Cellular customers | We generally calculate the number of cellular customers as active customers on their network, as per the HLR, net of deactivations, test or service SIM cards, stock in hand or distribution channel, multi-IMSI in-roamers and SIM cards issued to employees, but include reconnections. |

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| | The number of customers is reported to COAI in this manner. |
| Churn | Rate of subscriber disconnections net of reconnections, calculated by dividing the total deactivations less reconnections by the average number of customers during the period (the average of the number of customers on the first and last days of the respective period) divided by the number of months during that period. It is typically expressed for a period of one month. |
| COAI | Cellular Operators Association of India. |
| CPP | Calling Party Pays regime. A system of revenue sharing, proposed by the Government, wherein the airtime charges for a call made to a cellular phone are paid by the fixed-line subscriber. Presently, implementation of CPP is under litigation and a final decision is awaited. |
| DELs | Direct Exchange Lines. Represents the number of fixed-line telephone connections between the subscriber's terminal equipment and the terminal exchange. |
| DoT | Department of Telecommunications. It is within the purview of Ministry of Communications, Government of India. |
| Fiber/ Fiber Optics | Means of providing high-speed transmission, using light to send images through a flexible bundle of very clear glass fibers. Fiber optics provide for very low transmission losses, support the highest data rates of any transport medium, lack radiation properties, are immune to electromagnetic interference. |
| GBPS | Gigabits per second. One gigabit is equal to 1 billion bits. |
| GPRS | General Packet Radio Switching. A standardized packet based technology that enables high-speed wireless access upto 115 kbps, allowing effective transmission of Internet and other data based applications. |
| GSM | Global System for Mobiles communication. GSM is an open, non-proprietary digital cellular standard, usually referred to as the European digital standard. It was first introduced in 1911 in Europe and has over the years become the cellular communications standard in Europe and Asia. |
| HLR | Home Location Register. |
| Interconnection | Connection of a telecommunications devices of service providers to the PSTN. It refers to joining of two or more networks to enable traffic to be transmitted to and from calling destinations. |
| ISDN | Integrated Services Digital Network. A network that provides end-to-end digital connectivity for the simultaneous transmission of voice, data, video, imaging, and fax over several multiplexed communications channels. ISDN service can operate over local loop technology at its lower tier speeds and over digital technology at higher speeds. |
| ISP | Internet Service Provider. |
| KBPS | Kilobits per second. |
| Last Mile | A telecommunications network's final connection to customers. Typically, a copper line carrying an analog signal is used to provide the last mile connectivity. The alternative is the use of WLL. Last mile connectivity is of particular relevance in case of data communications such as e-mail, Internet, etc, since the bandwidth requirement for these services is typically very high. |
| LDCA | Long Distance Charging Area. An area, which roughly corresponds with a district, into which the country has been divided as per the national long distance calling policy. India has been divided into 322 LDCAs. |
| Limited mobility | Provision of last mile access to subscribers by fixed-line service providers, within a SDCA, using WLL application. |
| Local Loop | Communications lines/ services between the subscriber and the switching center for the telecommunications services provider. |
| LSU | Local Switching Unit. |
| MBPS | Megabits per second. One megabit is equal to one million bits. |
| MHz | Megahertz. It denotes measurement of frequency and signifies one million cycles per second. |
| MoU | Minutes of Usage. Duration for which cellular services are used by a customer. It is typically expressed over a period of one month.<br>MOU per customer per month is the weighted average minutes of usage per customer per month is calculated by:<br>(i) dividing the total minutes of usage for the year in our cellular networks less total roaming minutes by 12; and<br>(ii) dividing the result by the average number of our customers in our cellular networks at the beginning and at the end of the year. |

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| MSC | Mobile Switching Centers for switching calls and interconnecting with PSTN and other cellular or fixed-line networks. |
| MSU | Main Switching Unit. |
| MTNL | Mahanagar Telephone Nigam Limited. A Government owned company, providing telecommunications services in Delhi and Mumbai. |
| New Telecommunications Policy 1999 (NTP 1999) | Telecommunications policy announced by the Government of India in March 1999, which gives a policy framework for telecommunications regulation in India. |
| POP | Point of presence. |
| Post-paid services | Provision of cellular services to customers, in which the customers pay for usage of cellular services at the end of the billing period for services, including airtime, value added services, access and interconnection charges and other charges. |
| Pre-paid services | Provision of cellular services to customers, in which the customers pay a fixed amount, which is valid for a certain period, for usage of cellular services, including airtime, value added services, access and interconnection charges and other charges. |
| PSTN | Public Switched Telephone Networks. |
| Redundancy | A secondary system of backup equipment that performs similarly to a primary system, thereby preventing network downtime and system outages. |
| Roaming | Occurs when cellular customers use the cellular service outside their home network. Roaming facility is made available by an arrangement between two cellular services providers to allow their respective subscribers to roam on each other's networks. |
| ROW | Right of Way. |
| RSU | Remote Switching Unit. |
| SACFA | Standing Advisory Committee on Radio Frequency Allocation. |
| SDCA | Short Distance Charging Area. India has been divided into approximately 2,650 SDCA, typically, each township being an SDCA. |
| SDH | Synchrous Digital Hierarchy. |
| SIM | Subscriber Identity Module. SIM card is the enabling device inside a handset for providing cellular services. |
| SMS | Short Messaging Services, by which text messages of upto 160 characters can be exchanged between two or more cellular subscribers. |
| Switch | Any device that co-ordinates and directs flow of telecommunications traffic, comprising voice or data traffic over a network. |
| TBPS | Terabits per second. 1 Terabit is equal to 1,000 billion bits or 1,000 Gigabits. |
| TEC | Telecommunications Engineering Centre. It is under the purview of DoT, Ministry of Communications. |
| TRAI | Telecom Regulatory Authority of India. An autonomous body set up by the Government which operates under the TRAI Act and has been conferred certain regulatory and adjudicatory powers. |
| USO Fund | Universal Service Obligation Fund. |
| VPN | Virtual Private Network. A private network delivered over a telecommunications services provider's shared infrastructure. |
| VPT | Village Public Telephones. |
| VSAT | Very Small Aperture Terminal. A satellite communications technology that employs frequencies in the Ku band or C band and very small receiving dishes. VSAT systems employ satellite transponders; the receiving dishes may be leased or owned by the VSAT user. |
| VSNL | Videsh Sanchar Nigam Limited. A Government owned Company, providing international long distance calling services and Internet services in India. |
| WAP | Wireless Application Protocol. The language that enables cellular subscribers to load and display information from the Internet. |
| WLL | Wireless in Local Loop. It denotes the use of wireless technology for the last mile access by fixed-line service providers. CDMA, Time Division Multiple Access (TDMA) are among the commonly used technologies for providing wireless in the local loop. |
| WPC | Wireless and Planning Co-ordination Wing of the DoT, responsible for identification and allocation of frequency spectrum to telecommunications services provider. |

**Definitions as per Articles of Association of Bharti Tele-Ventures**

"Act" shall mean the Companies Act, 1956, as amended and modified from time to time;

"Affiliate", shall mean, with respect to any Person, any other Person that, directly or indirectly, controls, is controlled by, or is under direct or indirect common control with, such Person, or is a director or officer of such Person or of any Person who would otherwise qualify as an Affiliate of such Person pursuant to this definition; provided that an Affiliate shall include any entity that, directly or indirectly (including through limited partner or general partner interests), owns more than 20% of voting equity or interest of such Person or is similarly owned by such Person. For purposes of this definition, the term "control" when used with respect to any Person means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Alternate Director" shall have the meaning ascribed to it in Article 127;

"Annual Report" shall mean the annual report referred to in Article 100;

"Approved Accounting Policy" shall mean the Company's accounting policy as stated in the audited accounts of the Company as at the period ending March 31, 2000.

"Approved Business Plan" shall mean the plan referred to in Article 138(b)(xii).

"Approved Dividend Policy" shall mean, with respect to the Company or any of its Subsidiaries, the dividend policy of the Company or such Subsidiary, as at the date of these Articles or any new dividend policy established in respect of the Company or any such Subsidiary in accordance with these Articles, and, in each case, as the same may be amended or modified, from time to time, in accordance with these Articles or any other agreement between the Company Shareholders;

"Articles" shall mean the Articles of Association of the Company as amended, modified or supplemented from time to time;

"Auditors" means and includes those persons appointed as such for the time being by the Company.

"BEL" shall mean Bharti Enterprises Limited, a company established and existing under the laws of India, with its registered office at Qutab Ambience (near Qutab Minar), H-5/12, Mehrauli Road, New Delhi 110030, India;

"BGL" shall mean Bharti Global Limited, a company established and existing under the laws of Jersey, Channel Islands, with its registered office at PO Box 811, Queen House, Don Road, St. Hellier, Jersey, Channel Islands

"Bharti" shall mean Bharti Telecom Limited, a company duly incorporated and existing under the provisions of the Act with its registered office at Plot No. 6, Sector - 34, EHTP, Gurgaon 122001, Haryana, India

"Bharti Entities" shall mean, collectively, BEL, BGL, BTL, the Company and Bharti Overseas Trading Company.

"Bharti Group" shall mean, collectively, BEL and all of its indirect and direct Subsidiaries, and, without limitation, shall include BTL, BGL, the Company, Bharti Mobile Limited, Bharti Cellular Limited, Bharti Telenet Limited, SC Cellular Holdings Limited, Jubilant Holdings Limited, upon acquisition by the Company of Shares of Skycell Communications Limited, Skycell Communications Limited, Bharti BT Limited, Bharti Comtel Limited, Bharti BT Internet Limited, Bharti Telespatial Limited, Bharti Overseas Trading Company, Welldone Impex Limited and Bharti Telesonic Limited.

"Bharti Shareholders" shall mean, collectively, BEL, BGL and Bharti Overseas Trading Company.

"Board" shall mean the Board of Directors of the Company;

"Brentwood" shall mean Brentwood Investment Holdings Ltd., a company duly organised and existing under the Laws of Mauritius with its registered Office at C/o Multiconsult Ltd. Les Jamalacas, Vieus Consell Street, Port Louis, Mauritius;

"BTL Nominees" shall mean the nominees of BTL each of whom hold one (1) Share as nominee on behalf of BTL.

"BTL Shares" shall mean any or all of the ordinary voting class of shares of BTL having par value of Rs. 10, and shall include all shares derived there from, or consolidation or subdivision of BTL's share capital or otherwise, and a "BTL Share" shall mean any of them.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in the City of New Delhi, India, and Singapore are authorised or obligated by law or executive order to close.

"Capital" means the share capital for the time being raised or authorised to be raised for the purpose of the Company.

"Capital Expenditures" shall mean, with respect to any Person, all expenditures by such Person which should be capitalised in accordance with Indian GAAP.

"Chairman" shall have the meaning described in Article 104(1);

"Change of Control" shall mean (a) with respect to Brentwood, any event whereby E.M. Warburg Pincus & Co LLC either ceases to (i) own, directly or indirectly, more than 50% of the issued and outstanding voting shares of Brentwood or (ii) possess, directly or indirectly, the power to direct or cause the direction of management of Brentwood other than through the exercise of veto rights by another Person; (b) with respect to the STI Shareholder and in the event and for so long as the STI Shareholder owns voting shares in the Company, any event whereby Singtel either ceases to (i) hold, directly or indirectly, more than 50% of the issued and outstanding voting shares of the STI Shareholder or (ii) possess, directly or indirectly, the power to direct or cause the direction of management of the STI Shareholder other than through the exercise of veto rights by another Person; and (c) with respect to BTL, the first to occur of any of the following events:

- any Person, or group of Persons (other than any Persons that are members of the Bharti Group or the STI Group) acting in concert, who, directly or indirectly, (a) acquire(s) or obtain(s) any warrant, option or any other right which when exercised entitles such Person or Persons to hold, more than 50% of the then issued and outstanding BTL Shares, and/or (b) acquire(s) or obtain(s) the right, whether through an agreement or otherwise, to direct or cause the direction of management of BTL other than through the exercise of veto rights; or

- any business combination, merger, amalgamation or consolidation by BTL with any Person or group of Persons (other than any Persons that are members of the Bharti Group or the STI Group) whereby such Person or Persons possess(es), directly or indirectly, the power to direct or cause the direction of management of BTL other than through the exercise of veto rights.

"Claims" shall mean any and all administrative, regulatory, judicial or similar actions, suits, demands, demand letters, claims, liens, notices of non-compliance or violation, investigations or proceedings.

"Company" shall mean Bharti Tele-Ventures Limited, a Public Limited Company incorporated and existing under the provisions of the Act with its registered office at Qutab Ambience, H-5/12 Mehrauli Road, New Delhi – 110 030, India.

"Company Shareholder" shall mean each of Brentwood, the STI Shareholder and Bharti and any other person who is registered as a holder of Shares in the register of members of the Company and also is a party to a shareholders agreement between the Company Shareholders.

"Core Network Elements" shall mean radio spectrum, transmission network and equipment, microwave equipment and telecommunications base stations, monopoles and towers.

"Corporate Data Network Service" shall mean internet protocol-virtual private network services, leased lines services, business dial-up plan services, business digital subscriber line services, business voice over internet protocol services, business facsimile over internet protocol services, web-hosting services, collocation and facilities management (data centre) services, remote access and security services and any other related business services other than V-SAT Services.

"Deadlock" shall mean with respect to any action proposed to be taken by the Board of Directors, the occurrence of the affirmative votes and the negative votes of the Directors, as the case may be, being equal.

"Debt" shall mean, with respect to any Person or an Existing Project or New Project as at any time, in the case of such Person, all long term indebtedness of such Person as would be reflected on its balance sheet at such time (prepared in accordance with Indian GAAP as consistently applied in the preparation of such Person's balance sheet), including any short-term component of such long-term indebtedness whether or not such short-term component would be included as long-term indebtedness under Indian GAAP, excluding (i) any contingent liabilities as determined in accordance with Indian GAAP, (ii) any such contingent liability that is a financial or performance guarantee, and (iii) in the case of such project all monies proposed to be invested in such project and funded from loans or other similar indebtedness.

"Debt Equity Factor" shall mean, with respect to any Person at any time, the calculated result of: the Debt Equity Ratio of such Person or project, as the case may be, at such time, plus one (1), provided that in any case where the Debt Equity Ratio is less than two (2) the Debt Equity Factor shall be calculated as if the Debt Equity Ratio is equal to two (2). In the case of a project and for the purposes of calculating the Debt Equity Factor, the Debt Equity Ratio shall be calculated for the twelve month period ending at the end of the third year of the operation of such project.

"Debt Equity Ratio" shall mean with respect to any Person or an Existing Project or New Project, at any time, such Person's or project's, as the case may be, Debt divided by its Equity, at such time.

"Director" shall mean a director on the Board.

"Direct Shareholding" shall mean with respect to any Company Shareholder or Company Shareholders, at any time, the percentage of the issued, subscribed and paid up Shares held directly by such Company Shareholder or Company Shareholders at such time of all the issued, subscribed and paid up Shares.

"DLDO" shall mean domestic long distance telecommunications operations.

"EBIT" shall mean, as to any Person and for any period of time, the consolidated net income of such Person and its Subsidiaries (excluding any and all income, dividends or distributions received from any Subsidiary or Affiliate of such Person) for such period of time, before interest expense and provision for taxes and without giving effect to any extraordinary gains or extraordinary losses and gains or losses from sales of assets (other than sales of inventory in the ordinary course of business) for such period.

"EBITDA" shall mean, as to any Person and for any period of time, the EBIT of such Person for such period of time adjusted by (i) adding thereto the amount of all amortisation of intangibles, depreciation and non-cash charges that were deducted in arriving at such EBIT and (ii) subtracting therefrom the amount of all non-cash gains that were added in arriving at such EBIT.

"EM Warburg Pincus" shall mean EM Warburg Pincus & Co LLC, a limited liability company organised under the laws of the State of Delaware, USA.

"EM Warburg Pincus Group" shall mean, collectively, Brentwood, EM Warburg Pincus and any investment funds managed and controlled by EM Warburg Pincus, and any wholly-owned subsidiary of Brentwood, EM Warburg Pincus or such investment funds.

"Encumbrance" shall mean any pledge, lien, charge, security agreement, lease, title retention agreement, mortgage, encumbrance, option or adverse claim or right or interest of any kind whatsoever in the Shares;

"Equity" shall mean with respect to any Person or an Existing Project or a New Project, at any time, in the case of such Person, the total shareholders' funds, as disclosed in the latest accounts, including the total issued and outstanding voting share capital, share premium and positive retained earnings of such Person and in the case of such project the total monies proposed to be invested in such project (other than monies funded from loans or similar indebtedness), at such time.

"Existing Project" shall mean any existing project in India, SAARC Region or in any Indian Ocean Rim Countries in the field of mobile telephony, fixed line telephony, long distance telephony, V-SAT Services, ISP, portal services or Corporate Data Network Services, or any other telecommunications services.

"Existing Subsidiary" shall mean any Subsidiary of the Company that is a Subsidiary on the date that the STI Shareholder first acquires any Shares in the Company.

"Fair Market Value" shall mean such value as is acceptable to and agreed by each Company Shareholder, or in the absence of any such acceptance or agreement, the value as is determined by an internationally recognised investment banking firm, accounting firm or other independent expert appointed, collectively, by the Company Shareholders.

"Free Cash Flow" shall mean, with respect to any Person for any period of time, the EBITDA of such Person for such period of time less the sum of (i) any change in the net working capital requirement, (ii) capital expenditure (i.e., all expenditures which should be capitalised, including all expenditures with respect to fixed assets and expenditures for maintenance and repairs) and (iii) taxes computed on an unleveraged basis (i.e., without accounting for any and all indebtedness), all as determined in accordance with Indian GAAP of such Person for such period of time.

"Fiscal Year" shall have the meaning ascribed to it in Article 167;

"General Meeting" shall mean a meeting of the Shareholders of the Company entitled to vote at such meeting, whether or not they are parties to, or have agreed to be bound by the terms of these Articles, duly constituted in accordance with the Memorandum and Articles of Association and the Act.

"General Reserved Matter" shall have the meaning set forth in Article 138(b).

"Government" shall mean the Government of India, or any state or local government in India, or any political or statutory subdivision or authority thereof or therein or any other government or subdivision, instrumentality, agency or authority thereof having jurisdiction over any activity required to be undertaken by the Company or any Shareholder to perform its obligations under or in connection with these Articles.

"Governmental Authorisation" shall mean any permission, approval, consent, license, order, decree, authorisation, authentication of, or registration, qualification, designation, declaration or filing with or notification, exemption or ruling to or from the Government required under any statute or regulation, or pursuant to any Government policy or to or from any Regulatory Authority, in connection with any action to be taken by the Company or any Shareholder.

"Granting Party" shall have the meaning set forth in Article 83.

"Indian Authorities" shall mean any Indian federal/central, state or municipal government, regulatory authority, governmental department, agency, instrumentality, commission, board, tribunal, or court or other law, rule or regulation making Person in India;

"Indian GAAP" shall mean, with respect to any Person, the generally accepted accounting principles used in India consistently applied with respect to such Person.

"Indian Ocean Rim Countries" shall mean countries in the Indian Ocean from the western coast of India to the eastern coast of Africa namely the Seychelles, Mauritius, Madagascar, Republic of Reunion, Comoros, Chagos Archipelago, Coetivy, Amirante, Providence, Tromelin, Roderigues and Aldabra1.

"Investing Company" shall mean the Company and/or any of its Subsidiaries that proposes to make or makes an investment in a New Project or an Existing Project.

"Investment Criteria" shall mean, in the case of any New Project or Existing Project, the business case or investment assessment shall project the achievement of the following financial requirements for such project:

(i) an internal rate of return over a 10-year period exceeding WACC or 15%, whichever is higher;

(ii) positive EBITDA in respect of such New Project or Existing Project, as the case may be, for a fiscal year ending not later than the fourth fiscal year of such project after the initial investment in such project; and

(iii) positive Free Cash Flow in respect of such New Project or Existing Project, as the case may be, for a fiscal year ending not later than the fifth fiscal year of such project after the initial investment in such project.

"In Writing" and "Written" includes printing, lithography and other modes of representing or reproducing words in visible form.

"IPO" or "Initial Public Offering" shall mean the first offering of the Shares or the shares of any of its Subsidiaries to the public or investors whether in or outside India and the consequent listing of the Shares or the shares of such Subsidiary, as the case may be, on any stock or share exchange, whether Indian or international.

"ISP" shall mean internet service provider.

"Laws" shall mean all applicable laws, by-laws, rules, regulations, orders, ordinances, protocols, codes, guidelines, policies, notices, directions and judgments or other requirements of any Indian Authority, as amended from time to time;

"Liens" shall mean any pledge, lien, charge, security agreement, lease, title retention agreement, mortgage, encumbrance, option or adverse claim or right or interest of any kind whatsoever in the Shares;

"Material Adverse Effect" shall mean, with respect to any Person, there has occurred or is likely to occur or there exists an event or circumstances, that has, or could reasonably be expected to have, a material adverse effect on the condition (financial or otherwise), properties, assets, business, liabilities, results of operations or prospects of such Person or, if relevant, on the ability of such Person to perform its obligations under these Articles.

"Member" shall mean the registered holder for the time being of any shares in the Capital of the Company and without limitation shall include a Shareholder and a Company Shareholder.

"Memorandum" shall mean the Memorandum of Association of the Company, as amended, modified or supplemented from time to time pursuant to applicable Law;

"Mobile Business" shall mean any business for the provision of mobile telephony services.

"Mobile Carriage Services" shall mean a service where a customer can send or receive any sign, signal, writing, image, sound, intelligence or information of any nature transmitted over a transmission path while moving continuously between places using customer equipment that is not in physical contact with any part of the Mobile Telecommunications System by means of which the service is supplied;

"Mobile Telecommunications System" shall mean a system used or designed to be used for the supply of telecommunications to the public and that uses intercell hand-over functions;

"Month" means calendar month;

“New Project” shall mean a new project in India, SAARC Region or in any Indian Ocean Rim Countries in the field of mobile telephony, fixed line telephony, long distance telephony, V-SAT Services, ISP, portal services or Corporate Data Network Services, or any other telecommunications services.

“New Subsidiary” shall mean any entity that becomes a Subsidiary of the Company.

“Nominee” shall mean Pastel Limited.

“Offeree” shall have the meaning set forth in Article 83.

“Offeree Parties” shall mean the Bharti Entities or the STI Group, as the case may be.

“Office” means the registered office for the time being of the Company;

“Pastel Limited” shall mean Pastel Limited, a company established and existing under the laws of Mauritius.

“Permitted Transferee” and “Permitted Transferees” shall mean (a) in the case of any member of the STI Group, any other member of the STI Group, (b) in the case of any member of the Bharti Group, any other member of the Bharti Group and (c) in the case of any member of the EM Warburg Pincus Group, any other member of the EM Warburg Pincus Group other than any member of the group who is a Telecoms Operator.

“Person” shall mean any natural person, individual, corporation, limited partnership, co-operative, general partnership, joint stock company, joint venture, association, company, trust, bank, trust company, land trust, business trust, corporate body or other organisation, whether or not a legal entity, and government and agency and political subdivision thereof or therein.

“Proxy” includes Attorney duly constituted under a Power of Attorney to vote for a member at a general meeting of the Company on a poll.

“Qualified Stock Exchange” shall mean any national or regional stock or securities exchange on which the Shares are listed or quoted for trading, including, without limitation, the Stock Exchange, Mumbai, the New York Stock Exchange and NASDAQ.

“Relevant Stock Exchange” shall mean any recognised stock exchange on which Brentwood and the STI Shareholder are able to list any BTVL Shares held, directly or indirectly, by each of them without restriction, other than restrictions stated in the listing requirements for such stock exchange, that can not be waived or exempted by such stock exchange.

“Regulatory Authority” shall mean any such regulatory organisation having, jurisdiction over any activity required to be undertaken by the Company or any Shareholder to perform its obligations under or in connection with these Articles.

“Resale Business” shall mean any business that provides Mobile Carriage Services using Core Network Elements established, operated and maintained by another entity.

“SAARC Region” shall mean the countries comprising Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

“SC Cellular” shall mean SC Cellular Holdings Limited, a company established and existing under the laws of India.

“Seal” means the Common Seal for the time being of the Company.

“SEBI” shall mean the Securities and Exchange Board of India or any other agency then administering the SEBI regulations and the other national securities laws of India.

“SEBI Price” shall mean, at any time, the minimum price per Share at which the Shares can be sold at such time as determined in accordance with then-applicable SEBI regulations.

“Shares” shall mean the equity shares of the Company of a nominal value of Rs. 10/- each or such other nominal value as approved pursuant to applicable Laws and the terms of these Articles.

“Shareholding” shall mean: with respect to any Person as a Company Shareholder, at any time, that Person’s total direct and indirect shareholding in the Shares; and with respect to a group of Persons, the aggregate of the total direct and indirect shareholding of each such Person in the Shares without any duplication or double counting of shareholdings among such Persons; it being understood that the indirect shareholding of any such Person in the Company shall mean the effective economic interest held indirectly by such Person in the Company (e.g. if such Person holds 85% of the voting class of shares of A which in turn holds 50% of the voting class of shares of B which in turn holds 30% of the voting class of shares of the Company, then such Person holds an indirect shareholding of 12.00% (0.80x0.50x0.30) in the voting class of shares of the Company; and on a group (comprising such Person, A and B) basis, the holdings of A and B in the preceding example shall not be duplicated with the holdings of such Person for the purposes of determining the shareholding of the group in the Company (and by way of another example, if such Person holds 80% of the voting class of shares of C and C holds 50% of the voting class of shares of the Company, and A holds 20% of the voting class shares of B and B holds 30% of the voting class of shares of the Company, the group comprising such Person, C, A and B holds, on a group basis ((0.80x0.50) + (0.20x0.30)) 46% of the voting class shares of the Company). For the purpose of calculating STI Shareholder’s Shareholding at any time, such shareholding shall be deemed to include the number of BTL Shares which the Convertible Debentures are capable of being converted into at such time. In the foregoing sentence, Convertible Debentures means the debentures of principal amount US$75,000,000 which are to be convertible into 1,884,896 BTL Shares, or redeemable for 68,750,000 Shares, or a combination of those alternatives, which Pastel proposes to subscribe for pursuant to a debenture subscription agreement between BTL, BEL and Pastel.

“Shareholder” shall mean any person holding a legal and beneficial interest in the Shares and shall include, without limitation, a Member and a Company Shareholder.

“Singtel” shall mean Singapore Telecommunications Limited.

“STI” shall mean Singapore Telecom International Pte Ltd.

“STI Group” shall mean STI, the STI Shareholder, Singtel and any and all of Singtel’s direct or indirect Subsidiaries.

“STI Shareholder” shall mean whichever of STI or its Nominee acquires Shares;

"Subsidiary" shall mean, with respect to any Person, any entity of which more than 50% of the securities or ownership interest having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are owned directly or indirectly by such Person; and with respect to the Company, shall also mean to include the following entities irrespective of whether such 50% of the securities or ownership interest of such entity is owned by the Company, Bharti Cellular Limited, Bharti Telenet Limited, Bharti Mobile Limited, Skycell Communications Limited, Jumbo Holdings Limited, Viscount Holdings Limited, Jubilant Holdings Limited, SC Cellular Holdings Limited, Bharti Comtel Limited, Welldone Impex Limited, Bharti Telesonic Limited, and, upon the acquisition by the Company of shares in Bharti BT Limited, Bharti BT Limited and any Person directly or indirectly controlled by the Company (for these purposes control shall have the meaning set forth in the definition of Affiliate).

"Telco" shall mean any Person that is a Telecoms Operator in India, and shall include any Affiliate or Subsidiary in India of such Person.

"Telecoms Operator" shall mean any Person (other than any member of the Bharti Group or the STI Group) that is engaged, directly or indirectly through its Affiliates, in the business of providing any of voice, data, DLDO, Corporate Data Network Services, V-SAT Services and/or other telecommunication services, whether through fixed, cable, multi media or mobile network for local or international calls, as an operator or service provider, and shall include any Affiliate or Subsidiary of such Person.

"Telecom Shareholder" shall mean any member of the Bharti Group and the STI Group who holds Shares.

"Territory" shall mean, at any time, any territory defined as a "Circle" under a valid and existing licence for cellular mobile telephone service granted in respect thereof by the Department of Telecommunications, Government of India to the Company or any of its Subsidiaries, at such time.

"Total Equity Investment" shall mean, with respect to an Investing Company and an Existing Project or a New Project, the sum of: (a) in the case of an Existing Project, such Investing Company's acquisition price of the investment in such Existing Project and, in the case of a New Project, such Investing Company's initial equity investment in such New Project plus (b) such Investing Company's share of the projected additional equity investments, if any, in such Existing Project or New Project, as the case may be, during the first three consecutive years after such acquisition or initial investment, as the case may be.

"Transfer" shall mean the sale, gift, pledge, assignment, transfer, transfer in trust, mortgage, alienation, hypothecation, Encumbrance or disposition of any Shares by any Shareholder in any manner whatsoever, voluntarily or involuntarily, including, without limitation, any attachment, assignment for the benefit of creditors or transfer by operation of law or otherwise and the term "Transferred" shall be construed accordingly.

"V-SAT Services" shall mean data and voice transfer services provided through the use of very small aperture terminals and satellite transponders.

"Virgin/Singtel JV" shall have the meaning set forth in Article 87(f).

"WACC" shall mean the weighted average cost of capital.