

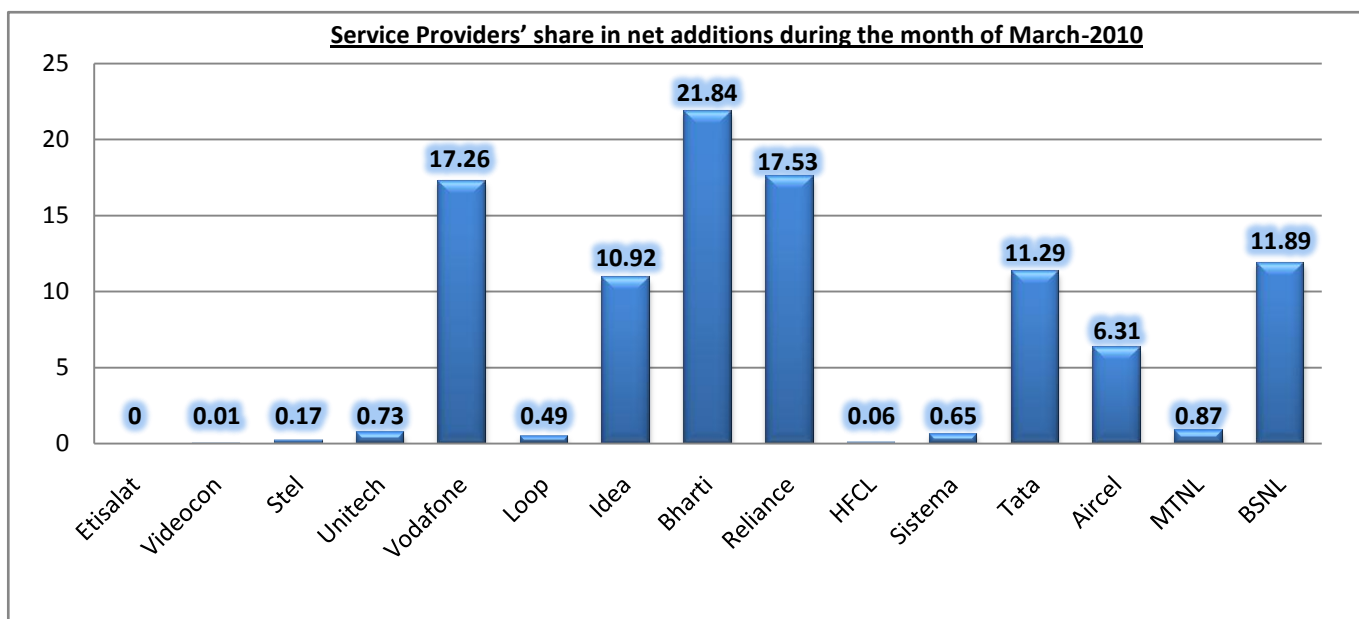
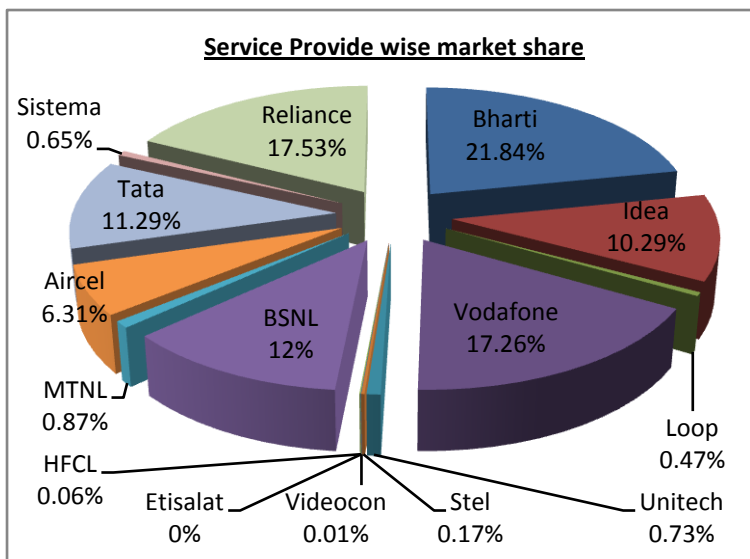
The Indian telecommunications industry is one of the fastest growing in the world. According to the Telecom Regulatory Authority of India (TRAI), the number of telecom subscribers in the country reached 621.28 million as on March 31, 2010, an increase of 3.38 per cent from 600.98 million in February 2010. With this the overall teledensity (telephones per 100 people) has touched 52.74. In the first quarter of FY 2010 there have been a record breaking 59.18 million mobile subscriber additions - More than twice as many added in China during the same period (29.5 million), which is currently leading with 780 million mobile subscribers as of March 2010.

Executive Summary & Trends at a Glance

1. The number of telephone subscribers in India increased from 509.03 Million at the end of Sep-09 to 562.16 Million at the end of Dec-09, registering a growth of 10.4%. The overall Teledensity in India has reached 47.88 as on 31st December 2009.
2. Subscription in Urban Areas grew from 357.22 Million at the end of Sep-09 to 387.63 Million at the end of Dec-09, taking the urban Teledensity from 102.79 to 110.96. Rural subscription increased from 151.81 Million to 174.53 Million leading to increase in Rural Teledensity from 18.46 to 21.16, during this period.
3. About 57% of the total net additions have been in urban areas as compared to 65% in the previous quarter. This in other words, implies rapid increase in rural subscriptions during the quarter. However, this uptake in rural subscription is in wireless segment. The share of rural subscribers has increased to 31% in total subscription from 29.8% in Sep-09.
4. With 53.37 Million net additions during the Quarter, Total Wireless (GSM + CDMA) subscriber base increased to 525.09 Million at the end of Dec-09, and wireless Tele-density reached 44.72.
5. Wire line subscriber base declined from 37.31 million in Sep-09 to 37.06 Million at the end of Dec-09, bringing down the wire line teledensity to 3.16 from 3.19 in Sep-09
6. Internet subscribers increased from 14.63 million to 15.24 million at the end of December 2009 registering a quarterly growth rate of 4.21%. Top 10 ISPs together hold 95.93% of the total Internet subscriber base.
7. Share of Broadband subscription in total Internet subscription increased from 49.3% in Sep-09 to 51.3% in Dec-09. 86.54% of the Broadband subscribers are using Digital Subscriber Line (DSL) technology.
8. Average Revenue per User (ARPU) for GSM-Full Mobility service declined by 12.4%, from Rs. 164 in QE Sep-09 to Rs. 144 in QE Dec-09.
9. MOU per subscriber for GSM – Full mobility service declined by 2.82%, from 423 in QE Sep-09 to 411 in QE Dec-09. The outgoing MOUs declined by 2.67% and incoming by 2.96%.
10. ARPU for CDMA – Full mobility service declined by 7%, from Rs. 89 in QE Sep-09 to Rs. 82 in QE Dec-09.
11. MOU per subscriber for CDMA-full mobility service increased by 3.2% from 308 (QE Sep-09) to 318 (QE Dec-09). The Outgoing MOUs increased by 4.04% and Incoming MOUs by 2.5%.
12. Gross Revenue (GR) and Adjusted Gross Revenue (AGR) of Telecom Sector for the QE Dec-09 has been Rs 39,756.64 Crore and Rs.29, 125.67 Crore respectively. There has been an increase of 2.32% and 0.04%, as compared to previous quarter, in GR & AGR respectively.
13. Average license fee as percentage of AGR is 8.34% in Dec-09 as against 8.41% in previous quarter.
14. The performance of the Basic Telephone Service (Wire line) Service Providers is at same level as compared to the previous quarter in respect of the parameter of “Call completion rate (in local network)” and “Time Taken for Refund of deposits after closures”.
15. The performance of the Cellular Mobile Telephone Service providers is at same level as compared to the previous quarter in respect of the parameter of TCH Congestion, Metering and billing credibility - post paid and Period of applying credit/ waiver/ adjustment to customer’s account from the date of resolution of complaints.
16. Total Number of channels registered with Ministry of I&B increased from 472 in Sep-09 to 485 in Dec-09. There are 142 pay TV channels in existence as reported by 23 broadcasters/their distributors at the Quarter ending Dec-09.
17. Maximum number of TV channels being carried by any of the reported MSOs is 253 whereas in the conventional analogue form, maximum number of channels being carried by the reported MSOs is 100 channels.
18. The number of private FM Radio stations in operation remained as 248 at the end of Dec-09.
19. Besides the free DTH service of Doordarshan, there are 6 private DTH licensees. All the 6 DTH licensees are offering pay DTH services to the customers as on 31.12.2009 and their reported subscriber base is 19.1 million.
20. Number of Set Top Boxes (STBs) installed in CAS notified areas of Delhi, Mumbai, Kolkata and Chennai increased from 7, 34,016 in Sep-09 to 7, 45,953 in Dec-09.

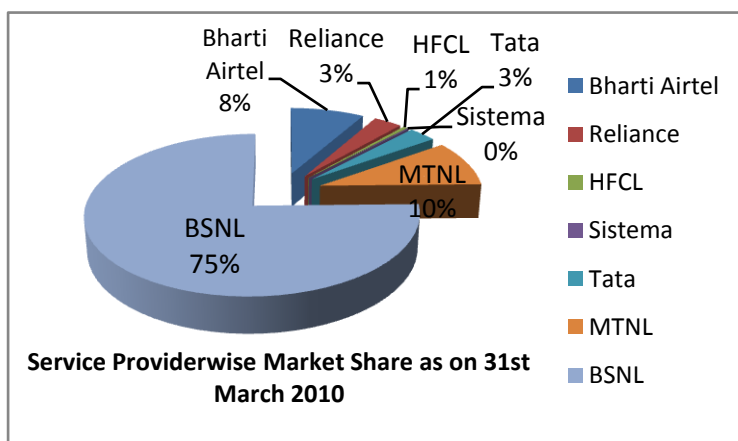
Wireless Segment (GSM, CDMA & FWP)

The wireless subscriber base has increased to 584.32 million at the end of March 2010 from 564.02 million in February 2010, registering a growth of 3.6 per cent. Wireless Tele-density stands at 49.60.



Wireline Segment

Wireline subscriber base at the end of March 2010 remains at 36.96 Million, same as in February-2010. BSNL/MTNL, two PSU operators hold 84.77% of the Wireline market share. Overall Wireline teledensity is 3.14.

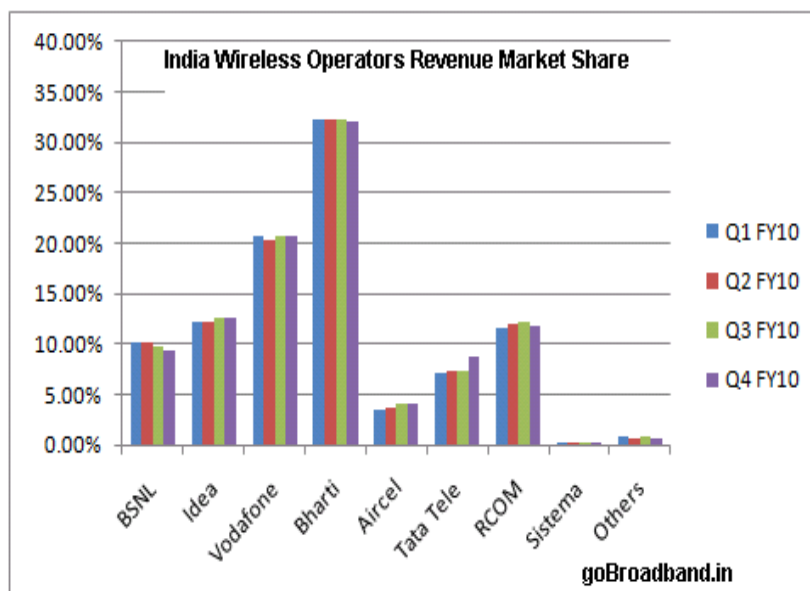


Big Market Players Revenues

TRAI data reveals that the overall wireless industry revenues grew 3.3% qoq in 4Q after remaining flat in the previous 3 quarters. At the end of FY 2010 [March-10], Bharti Airtel still leads the Revenue Market share in Wireless segment with a Pan India share of 32% down from 32.8% a year ago and a peak of 33.9% in June-09. This is how Wireless Operators rank w.r.t Revenue Market Share at the end of March-2010. The figures of the revenue are figured in the chart:

Company	Revenue (In Crores)	PAT (In Crores)	PE (x)	EBIDTA multiple (In Crores)	ARPU (Rs./User/Month)
Bharti Airtel	39,615	9,103	12.4	16,027	220
Reliance Communication	21,496	4,777	6.7	7,185	158
Tata Tele Service	11,026	(539)	N/A	1,012	125
Idea	12,447	954	25.1	3,407	185
MTNL	3,770	(2,515)	20.7	37	592 (broadband)

Revenue Market Share



Company	% Share	Remarks
Bharti Airtel	- 32.00 %	
Vodafone	- 20.80 %	Consistent
Idea Cellular	- 12.70 %	Moderate but commendable growth
Reliance Communication	- 11.70 %	Losing to Competition
BSNL	- 9.30 %	Loser
Tata Tele services	- 8.20%	Gaining on the back of DoCoMo's innovative strategies
Aircel	- 4.00 %	

Value-Added Services (VAS) Market

Mobile value added services include text or SMS, menu-based services, downloading of music or ring tones, mobile TV, videos and sophisticated m-commerce applications. According to the Economic Survey 2009-10, prior to 2008 a majority of VAS revenue was attributed to SMS. But with greater penetration of new services, availability of relatively inexpensive, feature-rich handsets and consumer education, value-added services other than SMS are gaining importance. It is expected that over the next few years non-SMS services will become a dominant contributor to VAS revenue.

Major Investments

The booming domestic telecom market has been attracting huge amounts of investment which is likely to accelerate with the entry of new players and launch of new services.

According to the Department of Industrial Policy and Promotion (DIPP), the telecommunications sector which includes radio paging, mobile services and basic telephone services attracted foreign direct investment (FDI) worth US\$ 2,495 million during April to February 2010. The cumulative flow of FDI in the sector during April 2000 and February 2010 is US\$ 8,872 million.

- Norway-based telecom operator Telenor has bought a further 7 per cent in Unitech Wireless for a little over US\$ 431.3 million. Telenor now has 67.25 per cent hold of the company. Telenor has now completed its four-stage stake buy and has invested a total of US\$ 1.32 billion in Unitech Wireless as agreed on with the latter last year
- The government has approved the foreign direct investment (FDI) proposal of the Federal Agency for State Property Management of the Russian Federation to buy 20 per cent stake in telecom service provider Sistema-Shyam for US\$ 660.1 million

Going Global

In March 2010, Bharti Airtel bought the African operations of Kuwait-based Zain Telecom for US\$ 10.7 billion, driving the Indian player into the league of top ten telecom players globally.

The Reserve Bank has liberalized the investment norms for Indian telecom companies by allowing them to invest in international submarine cable consortia through the automatic route. In April 2010, RBI issued a notification stating "As a measure of further liberalization, it has now been decided... to allow Indian companies to participate in a consortium with other international operators to construct and maintain submarine cable systems on co-ownership basis under the automatic route." The notification further added, "Accordingly, banks may allow remittances by Indian companies for overseas direct investment."

Rural Telephony

According to the Economic Survey 2009-10, rural tele-density has increased from 1.2 per cent in March 2002 to 15.1 per cent in March 2009 and further to 21.2 per cent at the end of December 2009.

Rural telephone connections have gone up from 12.3 million in March 2004 to 123.5 million in March 2009 and further to 174.6 million in December 2009. The share of private sector players in the total telephone connections has steadily increased from around 14 per cent in 2005 to 31 per cent as on December 31, 2009. During 2008-09, the growth rate of rural telephones was 61.5 per cent as against 36.7 per cent for urban telephones. The private sector has contributed significantly to the growth of rural telephony by providing 81.5 per cent of the rural phones as on December 31, 2009.

It is proposed to achieve rural tele-density of 25 per cent by means of 200 million rural connections by the end of the Eleventh Five Year Plan.

Policy Initiatives

The government has taken many proactive initiatives to facilitate the rapid growth of the Indian telecom industry.

- In the area of telecom equipment manufacturing and provision of IT-enabled services, 100 per cent FDI is permitted.
- No cap on the number of access providers in any service area. In 2008, 122 new Unified Access Service (UAS) licenses were granted to 17 companies in 22 services areas of the country.
- Revised subscriber based criteria for allocation of Global System of Mobile Communication (GSM) and Code Division Multiple Access (CDMA) spectra were issued in January 2008.
- To provide infrastructure support for mobile services a scheme has been launched to provide support for setting up and managing 7,436 infrastructure sites spread over 500 districts in 27 states. As on December 31, 2009, about 6,956 towers had been set up under the scheme.

According to the Consolidated Foreign Direct Investment (FDI) Policy document, the FDI limit in telecom services is 74 per cent subject to the following conditions:

- This is applicable in case of Basic, Cellular, Unified Access Services, National/ International Long Distance, V-Sat, Public Mobile Radio Trunked Services (PMRTS), Global Mobile Personal Communications Services (GMPCS) and other value added Services.
- Both direct and indirect foreign investment in the licensee company shall be counted for the purpose of FDI ceiling. Foreign Investment shall include investment by Foreign Institutional Investors (FIIs), Non-resident Indians (NRIs), Foreign Currency Convertible Bonds (FCCBs), American Depository Receipts (ADRs), Global Depository Receipts

(GDRs) and convertible preference shares held by foreign entity. In any case, the 'Indian' shareholding will not be less than 26 per cent

- FDI up to 49 per cent is on the automatic route and beyond that on the government route. FDI in the licensee company/Indian promoters/investment companies including their holding companies shall require approval of the Foreign Investment Promotion Board (FIPB) if it has a bearing on the overall ceiling of 74 per cent. While approving the investment proposals, FIPB shall take note that investment is not coming from countries of concern and/or unfriendly entities.
- The investment approval by FIPB shall envisage the conditionality that the Company would adhere to license Agreement
- FDI shall be subject to laws of India and not the laws of the foreign country/countries

Telecom Industry Expectation

- Re-introduction of tax exemptions in context of system rollouts in rural districts and to telecom infrastructure service providers.
- Tax relief to businesses undergoing reformatting mentioned in provisions under Section 80IA (12A) by the Finance Act, 2007.
- Special additional duty (SAD) compensation, accessibility of Cenvat Credit in case of relocation of the business.
- Tariffs of not up to 0.5-2% and explanation on tax reduction of entire spectrum charge.

Recent Events:

- Mukesh Ambani buys Infotel, and re-enters telecom business, for €850 million. RIL said it will invest about 48 billion rupees (€847.6 million) in Infotel via a new share issue, giving it a 95% stake in the firm.
- The Department of Telecom has taken the pioneering decision of launching of 3G services by BSNL and MTNL and initiation of process for auction of spectrum for 3G services to private operators. All the 71 blocks that were put up for auction across the 22 service areas in the country were sold, leaving no unsold lots. Auction for 3G spectrum ended on May 19, 2010 after 183 rounds of intense bidding over a span of 34 days. All the available slots across 22 circles have been sold to seven different operators. A pan-India bid for third generation spectrum stood at US\$ 3.6 billion. The Anil Ambani-led Reliance Communication bagged the highest number of 13 circles at a cost of US\$ 1.9 billion, followed by Bharti Airtel in 13, Idea in 11 and Vodafone and the Tatas in 9 circles each, according to the Department of Telecommunications. MTNL and BSNL will have to pay US\$ 1.42 billion and US\$ 2.2 billion respectively.
- The auction for BWA ended swelling the government coffers by Rs.38, 543.31 crore (over \$8.56 billion). The pan-India license price stood at Rs.12, 847.77 crore (over \$2.85 billion) at the end of the 16-day auction and 117 rounds in which 11 companies — Bharti Airtel, Reliance WiMax, Idea Cellular, Aircel, Augere Mauritius Ltd, Infotel Broadband Services, Qualcomm, Spice Internet Service Provider, Tata Communications Internet Services, Tikona Digital Networks and Vodafone Essar — took part. The government had already allocated one block each of 20 MHz of unpaired spectrum to Mahanagar Telephone Nigam Ltd (MTNL) and Bharat Sanchar Nigam Ltd (BSNL) in their respective service areas. Infotel broadband services won licenses in all the 22 circles into which India has been geographically divided for telecom services. Aircel bagged seven slots, Tikona got five, Qualcomm and Bharti four each, and Augere emerged winner in one circle.

The auction results of 3G and BWA spectrum are illustrated in the charts below:

Company	Investment in 3G(in crore)	Investment in BWA(in Crore)
Bharti Airtel	12,295	3,314
Vodafone	11,618	-
Aircel	6,498	3,438
BSNL	10,187	7,583
Tata Tele Services	5,864	-
MTNL	6,564	3,935
Infotel		12,848
Idea Cellular	5,765	-
Qualcomm	-	4,913
Reliance Communication	8,585	-

India's 3G topography

There are 22 telecom circles or service areas, which are broken down into four groups: metro, A, B and C circles. Metro circles cover dense population centers of Delhi, Kolkata and Mumbai. A, B and C circles cover geographic territories of varying population sizes; with A being the largest in terms of population coverage, and C the smallest.

Circle	3G licensees	Circle type
Delhi	Vodafone, Bharti, Reliance	Metro
Maharashtra	Tata, Idea, Vodafone	A
Gujarat	Tata, Vodafone, Idea	A
Andhra Pradesh	Bharti, Idea, Aircel	A
Karnataka	Tata, Aircel, Bharti	A
Tamil Nadu	Bharti, Vodafone, Aircel	A
Kolkata	Vodafone, Aircel, Reliance	Metro
Kerala	Idea, Tata, Aircel	B
Punjab	Idea, Reliance, Tata, Aircel	B
Haryana	Idea, Tata, Vodafone	B
UP (east)	Aircel, Idea, Vodafone	B
UP (west)	Bharti, Idea, Tata	B
Rajasthan	Reliance, Bharti, Tata	B
Madhya Pradesh	Idea, Reliance, Tata	B
West Bengal	Bharti, RCom, Vodafone, Aircel	B
Himachal Pradesh	Bharti, STel, Idea, Reliance	C
Bihar	STel, Bharti, Reliance, Aircel	C
Orissa	STel, Aircel, Reliance	C
Assam	Reliance, Bharti, Aircel	C
Northeast	Aircel, Bharti, Reliance	C
J & K	Idea, Aircel, Reliance, Bharti	C
Mumbai	Vodafone, Bharti, Reliance	Metro

India's BWA topography

There are 22 telecom circles or service areas, which are broken down into four groups: metro, A, B and C circles. Metro circles cover dense population centers of Delhi, Kolkata and Mumbai. A, B and C circles cover geographic territories of varying population sizes; with A being the largest in terms of population coverage, and C the smallest.

Circle	3G licensees	Circle type
Delhi	Infotel(RIL), Qualcomm	Metro
Maharashtra	Bharti, Infotel	A
Gujarat	Infotel, Tikona	A
Andhra Pradesh	Infotel, Aircel	A
Karnataka	Infotel, Bharti	A
Tamil Nadu	Infotel, Aircel	A
Kolkata	Bharti, Infotel	Metro
Kerala	Qualcomm, Infotel	B
Punjab	Infotel, Bharti	B
Haryana	Infotel, Qualcomm	B
UP (east)	Infotel, Tikona	B
UP (west)	Infotel, Tikona	B
Rajasthan	Infotel, Tikona	B
Madhya Pradesh	Infotel, Augere	B
West Bengal	Infotel, Aircel	B
Himachal Pradesh	Infotel, Tikona	C
Bihar	Infotel, Aircel	C
Orissa	Aircel, Infotel	C
Assam	Infotel, Aircel	C
Northeast	Aircel, Infotel	C
J & K	Aircel, Infotel	C
Mumbai	Infotel, Qualcomm.	Metro

The Road Ahead

According to a report published by Gartner Inc in June 2009, the total mobile services revenue in India is projected to grow at a compound annual growth rate (CAGR) of 12.5 per cent from 2009-2013 to exceed US\$ 30 billion. The India mobile subscriber base is set to exceed 771 million connections by 2013, growing at a CAGR of 14.3 per cent in the same period from 452 million in 2009. This growth is poised to continue through the forecast period, and India is expected to remain the world's second largest wireless market after China in terms of mobile connections. Mobile market penetration is projected to increase from 38.7 per cent in 2009 to 63.5 per cent in 2013.

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