# Management Discussion and Analysis

FY 2017 closed on a transformational note. The industry disruption in India hastened consolidation, telecom market moved to unlimited voice, bundled with large buckets of data, and the new entrant finally announced the launch of its paid services. 'Free pricing' during the year, by the new operator jeopardised the financial health of the industry. Predatory pricing impacted all stakeholders, and hampered government levies and taxes. In this heightened phase of competitive intensity, our priorities for the year centered on retaining and growing our high-quality customer base while optimising cost, all of which was enabled via our network leadership and an uncompromising commitment to our customers. Airtel is well prepared for this new normal, where the battle for capacity, network reach, and customer experience intersect. In line with the Government of India's 'Digital India' drive, Airtel launched Pan India Payments Bank. Airtel Payments Bank became the first payments bank in the country to go LIVE as it rolled out services nationally.

Africa continued to build on a potential turnaround. Airtel remains committed to Africa and during the year our efforts to strengthen our competitive position in weaker markets continued. With war on waste efforts driving opex efficiencies, Africa turned PBT positive during the year. Over the year, we continued to de-lever Africa through strategic stake sale in subsidiaries, tower sales and other asset monetisation. The continuing trend of growth in data volumes and correction of prices in voice, as well as the adoption of mobile money is a re-affirmation of the potential growth opportunity in Africa. Coupled with the demographic dividend, Africa would see the benefits of scale in the future.

Our investment grade ratings which are awarded and reaffirmed by international credit rating agencies validate that we have built a robust, scalable and sustainable business model. Our focus is to maintain an optimum capital structure at all times and enhance our financial strength. We stay committed to creating value for our stakeholders, while ensuring highest standards of corporate governance.

## Economic Overview

### Global Review

The financial year 2016-17 was marked by socio-economic uncertainty with widely unexpected outcomes such as UK's Brexit referendum and the US Presidential election. However, global growth prospects improved and fears of deflation receded towards the end of the year, helped by rising commodity prices and hopes of a fiscal stimulus in the US.

The US economy performed better than expectations during the year as US firms grew more confident of future demand. The economy also recorded a lower rate of unemployment. Even for Britain, it was widely believed that the Brexit referendum would hurt the economy. However, consumer confidence did not suffer, and to a large extent the economy was not derailed.

If these tailwinds continue, the global economy may pick up steam over the medium term. However, major structural impediments (low productivity growth and high-income inequality) continue to hinder a stronger recovery, especially over the medium term in advanced economies.

At the other end of the spectrum are the emerging markets and developing economies, which contribute significantly to global economic growth. These economies now account for over 75% of global growth in output and consumption, almost double their share in the last two decades. According to the IMF, the significant income gaps in these economies vis-à-vis those in advanced economies suggest a significant headroom for growth. This shows that emerging markets and developing economies have a strong potential for growth over the medium term.

During 2016-17, the picture for emerging market and developing economies (EMDEs) presented a diverse pattern:

- Stronger than expected growth in China, supported by continued policy stimulus.
- Weaker than expected activity in some Latin American countries (Argentina, Brazil and Turkey), which faced a sharp contraction in tourism revenues.
- Better than expected activity in Russia, in part reflecting firmer oil prices.

Going into 2017, encouraging economic dynamics in the first quarter of 2017, along with possibility of fiscal support in many economies, are likely to support global growth.

| Global Growth Trend (%) | Actual | | Projections | |
|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 |
| **World Output** | 3.4 | 3.1 | 3.5 | 3.6 |
| **Advanced Economies** | 2.1 | 1.7 | 2.0 | 2.0 |
| **Emerging and Developing Economies** | 4.2 | 4.1 | 4.5 | 4.8 |
| China | 6.9 | 6.7 | 6.6 | 6.2 |
| India | 7.9 | 6.8 | 7.2 | 7.7 |
| Sub-Saharan Africa | 3.4 | 1.4 | 2.6 | 3.5 |

(Source: International Monetary Fund, April 2017)

### Indian Economy

India's macro fundamentals continued to remain stable during the year, reinforced by concerted policy efforts by the Government. Measures to control food prices and judicious use of monetary policy levers by the RBI kept inflation low throughout FY 2016-17. The country continued to be one of the world's fastest growing economy, registering 7.1% growth in FY 2016-17.

After two years of drought, the monsoon was encouraging during the year, significantly improving agricultural prospects. Lower food prices helped bring headline CPI inflation down to an average of 4.5% in FY 2016-17. This, along with the implementation of the $7^{th}$ Pay Commission, strengthened rural and urban domestic demand. The Government of India also initiated a seminal economic reform (demonetisation) to reduce the cash intensity in the economy; and to drive formalisation and digitisation across all sectors.

Despite temporary hardships (which marginally impacted growth), demonetisation holds potential for long-term benefits by paving the way towards a larger and a cleaner GDP, driven by digital channels.

The passage of the Constitutional Amendment for paving the way for GST implementation was another landmark policy initiative, which the Government undertook. On the external front, current account deficit remained within comfortable limits. Inflation eased as well, paving the way for 50 bps reduction in interest rates.

### Outlook

India's growth momentum is likely to accelerate in the second half of FY 2018, with continued focus on infrastructure creation and manufacturing, and trickle-down impact of past policy reforms. In addition, long-term economic growth will be driven by major factors: low interest rates; benign inflation; favourable demographics (half of the population is below the age of 35); and greater focus on formalisation and digitisation of the economy.

### Key snapshots

1. India's digital economy is expected to grow from the current USD 270 Bn to around USD 1 Tn in the next 5-7 years, driven by exponential growth in e-commerce, electronic manufacturing, IT services, financial technologies (FinTech) and telecom.
2. The Government of India has set an ambitious target of increasing the contribution of manufacturing output to 25% of Gross Domestic Product (GDP) by 2025, from 16% currently.
3. The Government is targeting around ₹ 25 Tn (USD 376.53 Bn) investment in infrastructure over a three-year period, which will include ₹ 8 Tn (USD 120.49 Bn) for developing 27 industrial clusters; and an additional ₹ 5 Tn (USD 75.30 Bn) for roads, railways and port connectivity projects.
4. Higher agricultural credit, enhanced allocation for irrigation projects, a crop insurance scheme for farmers and increased allocations for MGNREGA in the Union Budget will help bolster rural income.

### African Economy

The financial year 2016-17 was very challenging for the African economy, owing to sharp declines in commodity pricing, slow recovery following the Ebola epidemic, severe drought in Southern and Eastern African countries, political turmoil and fuel shortages in a few countries. However, economic growth improved in the last quarter of 2016.

The performance of oil exporting economies is likely to be volatile, while there will be robust growth in economies, which are less reliant on natural resources.

There are fundamentally positive dynamics, which play in Africa's favour, including a growing labour force, increased urbanisation and advanced technology. Africa has the potential to emerge as one of the world's most productive and dynamic economies, where the telecom sector continues to witness a revolution in the areas of data and mobile commerce.

Mobile has become a platform of choice for creating, distributing and consuming innovative digital solutions in Africa. This scenario is also leading to a tech start-up ecosystem in the region.

### Key snapshots

1. In Sub-Saharan Africa, recovery is expected in 2017 with growth projected to rise to 2.6% in 2017 as commodity prices rebound, and drought conditions ease.
2. Focus on institutional governance, education and empowerment of youth are likely to be the continent's growth catalysts for the future.
3. Mobile devices are now the primary means through which about 80% of internet users in Sub-Saharan Africa access the internet.

### South Asian Economy

Sri Lankan economy has transitioned from a primarily agricultural economy to a more urbanised one, driven by services. Last decade marked an improvement in prosperity and a decline in poverty. However, 2016 was marked by a decline in agricultural production, but a pick-up in construction and investment led growth for Sri Lanka. Underpinned by growth and bolstered by medium term fiscal support, Sri Lankan economy rode out 2016, despite global headwinds. The outlook for the region is bright as the Government is implementing an economic programme to address macroeconomic imbalances and a large public debt.

## Megatrends that Drive Our Business

1. As per IAMAI, the number of internet users in India stood at 432 Mn as of Dec 2016. Internet penetration in urban India stands at around 60% whereas in rural India penetration is only 17%. Internet user base is expected to reach 450-465 Mn by June 2017. In urban India, the Internet user base grew by 7% to 263 Mn for year-on-year period ended October 2016, and rural India's Internet user base grew by 22% between the same period to 157 Mn.
2. Smartphone shipments grew 14.8% Y-o-Y to 27 Mn in first quarter of 2017 as per IDC. With Govt. of India's 'Make in India' programme, mobile production in India has already crossed the 100 Mn mark and is set to touch 500 Mn in the next two years. Increased focus on affordable smartphones will drive increased mobile broadband penetration in India which currently stands at sub 20%.
3. With an ongoing technological shift towards mobile broadband, reduction in data tariffs, and availability of affordable smartphones, 4G connection base is forecasted to grow from 3 Mn at the end of 2015 to 280 Mn by 2020 (Source: GSMA India). Data traffic is expected to grow by a CAGR of 63% over the period 2015 – 2020.
4. India is fast evolving digitally. Rising smartphone penetration and internet access is leading to increased connected consumers, which is also reflecting in growth of digital banking services. Govt. of India's demonetisation drive fueled digitisation in banking. Digitisation of payments presents a large opportunity in India. It is estimated that the total payments conducted via digital payment instruments will be in the range of USD 500 Bn by 2020 (Source: BCG – Google Digital Payments 2020).
5. Convergence of fixed and wireless technologies is becoming more tangible with improvements in handsets, increased data speed, and development of backhaul. Convergence of telecom services will lead to increased freedom to users to control their everyday lives over their own personal networks.
6. By 2020, India is set to become the world's youngest country with 64% of its population in the working age group. This demographic potential will offer India an unprecedented edge. Mobile data continues to help people elevate their lives with increased proportion of the population using internet for education, financial transactions, healthcare, and so on.
7. Africa is a youthful continent, a young and burgeoning population is on the cusp of a mobile data revolution with increased affordable handsets. Mobile internet adoption in Africa continues to grow rapidly; the number of mobile internet subscribers tripled in the last five years to 300 Mn by the end of 2015, with an additional 250 Mn expected by 2020 (Source: GSMA Africa).

8. Africa mobile money continues to drive financial inclusion in the region and accounts for 52% of the 271 live mobile money services in 93 countries and 64% of all active mobile money accounts (Source: GSMA Africa). With increased smartphone penetration, mobile phone banking technology is bringing more people in Sub-Saharan Africa into the formal financial sector.
9. As of March 2017, digital TV households in India crossed 100 Mn with combined seeding in Phase 3 and 4 markets reaching 68 Mn. DTH operators are likely to benefit from a rising subscriber base and high share in these markets. Innovations of paid TV services like – smart TV, HD usage continue to offer opportunities to service operators.
10. To enable the vision of Digital India, Govt. of India is extensively relying on technologies like cloud computing, and analytics. Smart cities will focus on delivery of smart services to citizens through a strong technological backing. This requires seamless digital and physical infrastructure to be shared efficiently across devices and applications; IoT will play a critical role in fulfilling this vision.

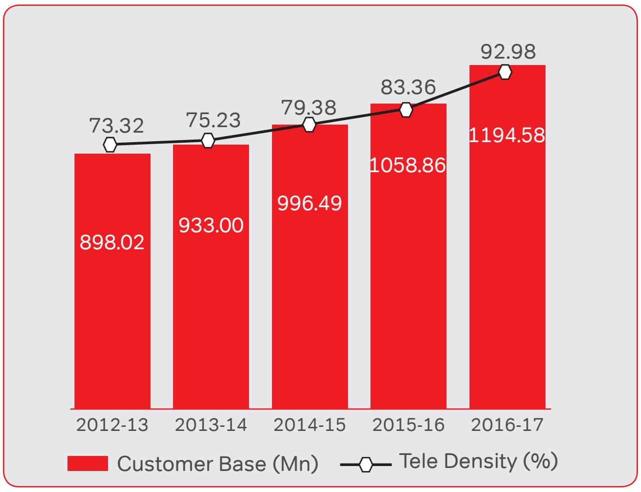
## Industry Overview

### Indian Telecom Sector

India's total customer base stood at 1,194.58 Mn with tele-density of 92.98%, as on March 31, 2017. The customer base has grown from 1,058.86 Mn and a tele-density of 83.36% last year. The urban tele-density stood at 171.80%, whereas the rural tele-density stood at 56.91%, as on March 2017. The country's telecom market continues to witness a strong growth of internet users; and now has the world's second highest number of internet users. The wire-line customer base is 24.40 Mn at the end of March 31, 2017 vis-à-vis 25.22 Mn at the end of March 31, 2016.

Among the service areas excluding metros, Himachal Pradesh has the highest tele-density (147.71%) followed by Tamil Nadu (128.40%), Punjab (118.28%), Kerala (114.75%), Gujarat (113.70%), Karnataka (113.38%), and Maharashtra (109.50%). Among the three metros, Delhi tops with 257.76% tele-density. On the other hand, the service areas, such as Bihar (60.95%), Assam (66.89%), Madhya Pradesh (67.04%), and Uttar Pradesh (74.02%) have comparatively low tele-density.

**Tele Density: India (%)**




(Source: Telecom Regulatory Authority of India)

Albeit rural penetration improved during the year and touched 56.91% as on March 31, 2017 vis-à-vis 51.37% as on March 31, 2016, low penetration shows a strong headroom for growth. With urban tele-density of over 170%, brilliant data network along with swift customer service and experience will be the key growth drivers in urban areas. With the government's favourable regulations /policies and the fast changing high-speed 4G ecosystem, India's telecommunication sector is expected to witness an exponential surge in data consumption in the coming years.

The year saw several business and industry developments, including the entry of a new operator offering free voice and data, leading to an unprecedented wave of consolidation in the telecom sector. During the year, the Company strengthened its spectrum and network footprint significantly through organic and inorganic routes. It is now best placed to capture the data market. During the year, the Company secured spectrum requirements in October 2016 auction (Refer section "Spectrum Auctions in India" on page 31).

### African Telecom Sector

The African continent remains surrounded by unpredictable economic and socio-political climate, marked by depressed commodity and fuel prices and less accommodating global financial conditions. Nevertheless, the continent still holds a huge promise. It is rich in natural resources, and a young population aspiring for a better quality of life.

The revenue-weighted currency depreciation vis-à-vis the US Dollar across 15 countries in Africa over the last 12 months (exit March 31 rates) has been 19.35%, primarily caused by depreciation in Nigerian Naira by 53.7%, Ghanaian Cedi by 12.6% and Uganda Shilling by 7.2%. In terms of the 12-month average rates, the revenue-weighted Y-o-Y currency depreciation has been 15.5%, mainly caused by depreciation in Nigerian Naira by 42.3%, and Malawian Kwacha by 26.2%.

A population of over a billion people and growing economic potential are creating new vistas of opportunities for the African telecom sector. Mobile data and digital economy offerings have a significant potential for sustainable growth; and with the smartphone prices coming down and increase in data adaptability, the African telecom market is set to be one of the remarkable success stories.

## Development in Regulations

The year saw several regulatory changes and developments. The significant regulatory changes were:

### India

- **Spectrum Auction:** In October 2016, DoT concluded the auction process for 700 MHz, 800 MHz, 900 MHz, 1800 MHz, 2100 MHz, 2300 MHz and 2500 MHz spectrum. Of 1,434.75 MHz (paired) and 920 MHz (unpaired) spectrum was put to auction across bands and service areas, 274.80 MHz of paired spectrum in 800 MHz, 1800 MHz and 2100 MHz bands and 690 MHz of unpaired spectrum in 2300 MHz and 2500 MHz bands was sold for a total consideration of ₹ 657,891 Mn. Airtel won 173.80 MHz (43.80 MHz of paired spectrum in 1800 MHz and 2100 MHz bands and 130 MHz of unpaired spectrum in 2300 MHz band) of spectrum worth ₹ 142,436 Mn.
- **Spectrum Usage Charges (SUC):** DoT has released new guidelines for the computation of SUC, according to which the spectrum assigned through the auction of 2016 will be charged @ flat 3%. The weighted average SUC rate

will be computed for all spectrum held by an operator (whether assigned administratively or through auctions or through trading) including BWA spectrum acquired in 2010 subject to a minimum of 3% of AGR (excluding revenue from wire line services).

The separate SUC from use of BWA spectrum has been withdrawn. In these guidelines, DoT has also fixed the floor amount of the SUC to be paid by the operator. The same is fixed as the amount of SUC payable by the operators during FY 2015-16 using the weighted average SUC rate derived after taking into consideration the spectrum acquired through auction of 2016 and excluding the spectrum in 2300 MHz/2500 MHz band acquired/allocated prior to 2015-16. Further, in case there is a reduction in AGR of the service provider, the floor amount of SUC shall be reduced proportionately.

- Harmonisation in 1800 MHz Band: Spectrum harmonisation refers to uniform allocation of radio frequency bands. During the year, spectrum harmonisation has been completed in all the 22 service areas, making nearly 188 MHz of paired spectrum available to the Government. The benefit for operators due to this harmonisation is that the spectrum they currently hold becomes contiguous and, therefore, more efficient, thereby improving network quality and broadband speeds.
- MVNO Guidelines by DoT: DoT has issued the guidelines for the introduction of Virtual Network Operators (VNO). Some key highlights of the guidelines comprise:
  - A Unified License VNO (UL (VNO)) will be granted by DoT, either for all telecom services or any particular telecom service permitted under UL.
  - One VNO and another NSO (Network Service Operator) (other than VNO's parent NSO) and a VNO and another VNO in the same service area directly or indirectly shall not have any beneficial interest in each other.
  - There would not be any mandate to an NSO for providing time bound access to its VNO; rather, it shall be left to the mutual agreement between NSO and VNO. However DoT & TRAI shall have right to intervene in the matter as and when required to protect the interest of consumers and telecom sector.
  - There would not be a restriction on the number of VNO licensees per service area.
  - There shall be no restriction on the number of VNOs parented by an NSO.
  - VNOs will be allowed to have agreements with more than one NSO for all services other than access services and such services which need numbering and unique identity of the customers.
  - The total amount of Entry fee for VNO's shall be subject to a maximum of ₹ 75 Mn for 10 years (same as UL, as entry fee for UL is ₹ 150 Mn for 20 years).
  - The License fee will be levied @ 8% of AGR. SUC shall be applicable as per rates applicable for NSO and can be amended from time to time.
  - VNOs shall not be allowed to own/install equipment of core infrastructure, i.e., Gateway Mobile Switching Centre (GMSC), Soft Switches and Trunk Automatic Exchange (TAX) or equivalent.
  - VNOs shall also be allowed to create their own service delivery platforms in respect of customer service, billing and VAS.
  - Only pan-India or service area-wise authorisations may be granted under a UL (VNO) license. However, UL (VNO) licensee will be able to service an area within the LSA of the NSO with which the VNO has entered into an agreement for delivery of services.
  - A VNO shall bear the penalty on account of failure of subscriber verification norms (for its own customers). Other penalties which are beyond the scope of the VNO viz, roll out obligations, core network issues etc. shall be borne by the NSO as per existing norms defined for them.
  - No spectrum shall be assigned to the VNOs.
  - The set-off/pass through charges between NSO and VNO is limited to applicable access charges such as carriage charges, termination charges and roaming charges.
  - In case, VNO decides to exit, for the services other than mobile, all customers of VNO will be migrated to any of the tariff plan of the parent NSO without any extra charges e.g. upfront/activation charges.
- Right of Way (ROW): DoT has released Indian Telegraph Right of Way Rules, 2016 to regulate Right of Way for underground infrastructure (Optical fiber) and over ground infrastructure (mobile towers). For underground infrastructure, the right of way fees shall not exceed one thousand rupees per kilometre and for over ground infrastructure it shall not exceed ten thousand rupees.

## Africa

- DRC: The interconnection rates have been revised downwards from 3.4 cents/min to 2.7 cents/min with effect from February, 2017.
- Malawi: The Malawi Parliament has passed new telecom laws in July 2016 which is pending for approval before the President. One of the provisions of the law is the requirement that the regulator must approve the product tariffs, before they are introduced in the market.
- Zambia:
  - The Government has announced in the press, the possibility of licensing a 4th National operator in Zambia. The Government has explained that it is conducting the review of the licensing regime to increase competition in the telecom sector.
  - The Regulator has issued a consultation paper to change the current licensing framework, where it issues several licenses and replace it with a unified licensing framework. Industry is engaging with the Regulator to fully understand how the new framework will affect existing operators.
- Congo B: The regulator during the year has issued a new Quality of Service (QOS) protocol with enhanced quality of service parameters.
- Gabon: The Government has abolished 10% universal health insurance tax with effect from March 2017.
- Nigeria: The international termination rates have been increased from Naira 3.90/min to Naira 24.40/min.
- Zambia, Tanzania, Malawi and Other SADC Countries: The governments within the SADC region have commenced bilateral arrangements to implement the Roam Like at Home tariffs imposed by the SADC governments.

## SCOT Analysis

### Strengths

- Presence: #1 telecom player in India, #3 worldwide and present in 17 countries across South Asia and Africa
- Spectrum: Only player with Pan India 4G/3G spectrum. 126 3G+4G carriers, highest in the industry
- Scale: Largest revenue and subscriber market share. Large distribution platform, enabling other services like Payments Bank
- Quad Play: Only operator to leverage quad play – Mobile, Fixed Voice, Broadband and DTH

### Challenges

- Operations: Geographically varied presence, integrating operations across India, South Asia and Africa leveraging common platform
- Customer Needs: Understanding evolving customer perceptions in fast-changing multi-cultural and multi-lingual environment
- Capex: Increased capex with technological changes

### Opportunities

- Data Usage Growth: Data explosion at its cusp with the proliferation of affordable smartphones; and the Government of India's digital drive
- Digital Payments: Total payments conducted via digital payments instruments to be in the range of USD 500 Bn by 2020 (Source: BCG-Google Digital Payments 2020)
- Consolidation: Consolidation in the industry leading to better industry dynamics and higher market shares
- Active Infra Sharing: Active infra sharing to lead to reduced expenditures

### Threats

- Competition: Increased competition, leading to falling average revenue per user
- Regulatory: Political and economic uncertainties across regions
- Currency Exposure: Volatility in currencies due to global macro-economic uncertainties
- MVNO: MVNO presence to put further pressure on pricing

## Financial Review

### Consolidated Figures

| Particulars | FY 2016-17 | | FY 2015-16 | |
|---|---|---|---|---|
| | ₹ Millions | USD Millions* | ₹ Millions | USD Millions* |
| Gross revenues | 954,683 | 14,214 | 965,321 | 14,742 |
| EBITDA before exceptional items | 356,206 | 5,304 | 341,682 | 5,218 |
| Interest, Depreciation & Others before exceptional items | 267,277 | 3,979 | 234,958 | 3,588 |
| Profit before exceptional items and Tax | 88,930 | 1,324 | 106,722 | 1,630 |
| Profit before tax | 77,233 | 1,150 | 128,463 | 1,962 |
| Tax expense | 34,819 | 518 | 59,533 | 909 |
| Profit for the year | 37,998 | 566 | 60,767 | 928 |
| Earnings per share (In ₹/USD) | 9.51 | 0.14 | 15.21 | 0.23 |

*1 USD = ₹ 67.16 Exchange Rate for financial year ended March 31, 2017 (1 USD = ₹ 65.48 for financial year ended March 31, 2016)

### Standalone Figures

| Particulars | FY 2016-17 | | FY 2015-16 | |
|---|---|---|---|---|
| | ₹ Millions | USD Millions* | ₹ Millions | USD Millions* |
| Gross revenues | 622,763 | 9,273 | 603,003 | 9,209 |
| EBITDA before exceptional items | 242,242 | 3,607 | 226,435 | 3,458 |
| Interest, Depreciation & Others before exceptional items | 153,483 | 2,285 | 116,517 | 1,779 |
| Profit before exceptional items and Tax | 87,613 | 1,304 | 109,343 | 1,670 |
| Profit before tax | (85,095) | (1,267) | 102,544 | 1,566 |
| Tax expense | 14,161 | 211 | 24,741 | 378 |
| Profit for the year | (99,256) | (1,478) | 77,803 | 1,188 |
| Earnings per share (In ₹/USD) | (24.84) | (0.37) | 19.46 | 0.30 |

*1 USD = ₹ 67.16 Exchange Rate for financial year ended March 31, 2017 (1 USD = ₹ 65.48 for financial year ended March 31, 2016)

The Company's consolidated revenues stood at ₹ 954,683 Mn for the year ended March 31, 2017, compared to ₹ 965,321 Mn in the previous year, a decline of 1.1% (underlying growth of 1.1%). In addition, Nigeria's currency devaluation has a 2.5% impact on revenue growth. The revenues for India and South Asia (₹ 745,159 Mn for the year ended March 31, 2017) represented a growth of 2.9%, compared to that of previous year (underlying growth of 3.7%). The revenues for Africa, in constant currency terms, grew by 3.5% (4.4% adjusting for the impact of divestment of tower assets).

The Company incurred operating expenditure (excluding access charges, cost of goods sold, license fees and CSR costs) of ₹ 399,731 Mn, representing a decrease of 3.5% (decline of 1.1% underlying) over the previous year. Consolidated EBITDA at ₹ 356,206 Mn grew by 4.3% (6.6% underlying) over the previous year. The Company's EBITDA margin improved during the year to 37.3%, compared to 35.4% in the previous year. Depreciation and amortisation costs for the year were higher by 13.3% to ₹ 197,730 Mn. This was primarily led by higher spectrum amortisation expense in India and incremental depreciation on deployed capex.

Consequently, EBIT for the year at ₹ 156,773 Mn decreased by 5.7% (decline of 4.0% underlying), resulting in 16.4% margin vis-à-vis 17.2% in the previous year. Incremental amortisation cost on new spectrum acquired in India has an impact on consolidated EBIT margin of 1.9%. The cash profits from operations (before derivative and exchange fluctuations) for the year ended March 31, 2017 was ₹ 283,666 Mn vis-à-vis ₹ 289,083 Mn in the previous year.

Net finance costs at ₹ 76,975 Mn were higher by ₹ 7,841 Mn, compared to previous year, primarily due to higher interest on borrowings of ₹ 18,247 Mn (FY'17 – ₹ 62,894 Mn, FY'16 – ₹ 44,647 Mn). The increase was largely attributed to spectrum related debt of India, this was partially off-set by lower forex losses in the current year, compared to previous year.

Consequently, the consolidated profit before taxes and exceptional items at ₹ 88,930 Mn, compared to ₹ 106,722 Mn for the previous year.

The consolidated income tax expense (before the impact of exceptional items) for the full year ending March 31, 2017 was ₹ 44,230 Mn, compared to ₹ 53,195 Mn for the previous year. The effective tax rate in India for the full year had increased to 32.5% (30.7% excluding dividend distribution tax) compared to 30.1% (28.7% excluding the impact of dividend distribution tax) for the previous year on account of expiry/reduction of tax holidays benefit in select units. The tax charge in Africa for the full year (excluding divested units) was almost flat at USD 160 Mn vs USD 158 Mn in the previous year, despite lower losses, on account of change in profit mix of the countries.

Net income before exceptional items for the full year came in at ₹ 38,134 Mn, compared to ₹ 47,991 Mn in the previous year. Exceptional items during the year accounted for net impact of ₹ 139 Mn. These included impact of gains/losses on divestment of subsidiary/associate/telecom tower asset, translation impact in Nigeria due to the new flexible exchange rate regime, reassessment of the useful life of certain categories of network assets of the group, due to technological advancements, litigation related assessment, operating costs on network re-farming and up-gradation programme and assessment of tax provisions, among others. After accounting for exceptional items, the resultant consolidated net income for the year ended March 31, 2017 was ₹ 37,998 Mn, compared to ₹ 60,767 Mn in the previous year.

The capital expenditure for the full year was ₹ 198,745 Mn (USD 3.0 Bn), compared to ₹ 205,919 Mn in the previous year. Consolidated operating free cash flow for the year grew at the healthy rate of 16.0% to ₹ 157,461 Mn.

Higher spectrum price, consequent escalation in associated amortisation costs and business slowdown in India due to predatory pricing by the new operator has led to decline of Return on Capital Employed (ROCE) to 6.5% from 8.3% in the previous year.

The Company has adopted Indian Accounting Standards (Ind-AS) for the preparation of its consolidated financial statements w.e.f. April 01, 2016, which was required as per notification issued by the Ministry of Corporate Affairs (MCA).

### Liquidity and Funding

As on March 31, 2017, the Company had cash and cash equivalents of ₹ 12,817 Mn and short-term investments of ₹ 20,283 Mn. During the year ended March 31, 2017, the Company generated operating free cash flow of ₹ 157,463 Mn. The Company's consolidated net debt as on March 31, 2017 increased by USD 1,490 Mn to USD 14,094 Mn as compared to USD 12,604 Mn last year, mainly on account of increased deferred payment liabilities to the DoT with respect to the 2016 spectrum auction. The Net Debt excluding the DoT obligations stood at USD 7,321 Mn as on March 31, 2017 i.e. it decreased by USD 130 Mn over the previous year (USD 7,451 Mn as at March 31, 2016). The Net Debt - EBITDA ratio (USD terms LTM) as on March 31, 2017 stood at 2.73 times as compared to 2.46 times in the previous year, mainly on account of the increase in deferred payment liabilities to the DoT. The Net Debt-Equity ratio stood at 1.35 times as on March 31, 2017, compared to 1.25 times in the previous year.

During the year, the Company undertook several initiatives to meet its liquidity and funding requirements. The Company completed the secondary sale of over 190 Mn shares of its subsidiary Bharti Infratel Limited ("Bharti Infratel") representing 10.3%, to a consortium of funds advised by KKR and Canada Pension Plan Investment Board ("CPPIB") for a total consideration of over ₹ 61,939 Mn (approx. USD 951.6 Mn). These proceeds were primarily used by the Company to reduce its debt. The Company also made its maiden commercial paper issuance of ₹ 30,000 Mn in Q3'17.

The Company continues to maintain its credit ratings and has access to both domestic and international debt capital markets.

### Spectrum Auction in India

India's largest auction process, offered a varied set of both paired and unpaired spectrum (700 MHz, 800 MHz, 900 MHz, 1800 MHz, 2100 MHz, 2300 MHz and 2500 MHz spectrum) was concluded by the Department of Telecommunications (DoT) on October 07, 2016 after 31 rounds of bidding.

A total of 2,354.55 MHz of spectrum was put to auction by DoT across bands, of which 965 MHz of spectrum was sold with 700 MHz and 900 MHz bands remaining unsold owing to the high reserve prices. Spectrum worth ₹ 657,891 Mn was bought by six telecom operators. The Company successfully acquired 173.8 MHz (43.80 MHz – Paired and 130 MHz – Unpaired) of spectrum across 1800 MHz, 2100 MHz and 2300 MHz bands for a total consideration of ₹ 142,436 Mn. The Company now has the widest mobile broadband footprint across the country and is the only operator to have Pan India 2G/3G/4G spectrum.

The quantum of spectrum acquired by the Company in various spectrum bands is summarised in the table below:

| Service Area | 1800 MHz Band (Paired) | 2100 MHz Band (Paired) | 2300 MHz Band (Unpaired) |
|---|---|---|---|
| Andhra Pradesh | - | - | 10.00 |
| Assam | 3.80 | - | 10.00 |
| Bihar | - | 5.00 | 10.00 |
| Delhi | - | 5.00 | 10.00 |
| Gujarat | - | - | 10.00 |
| Haryana | 1.60 | - | - |
| Himachal Pradesh | - | - | 10.00 |
| Jammu & Kashmir | 2.40 | 5.00 | - |
| Karnataka | - | - | 10.00 |
| Kerala | - | 5.00 | - |
| Kolkata | 2.00 | - | 10.00 |
| Maharashtra | 5.00 | - | - |
| Mumbai | - | - | 10.00 |
| North East | 1.40 | - | 10.00 |
| Odisha | - | - | 10.00 |
| Punjab | 0.80 | - | - |
| Rajasthan | 1.80 | 5.00 | - |
| Tamil Nadu | - | - | 10.00 |
| West Bengal | - | - | 10.00 |
| **Total Spectrum** | **18.80** | **25.00** | **130.00** |
| Upfront Payment (₹ Mn)* | 12,887 | 27,699 | 35,084 |
| Balance Amount (₹ Mn) | 11,081 | 20,701 | 34,984 |
| Total Cost (₹ Mn) | **23,968** | **48,400** | **70,068** |

* Upfront payments made in Oct'16: ₹ 75,670 Mn.

The Company's robust spectrum base enables it to continue leading India's data revolution. The Company through its continuous and strategic acquisition of spectrum remains fully committed to the Government's Digital India Mission. It will continue to invest towards making high-speed and affordable data services available to customers in every corner of the country.

### Awards and Recognition

- Airtel has been **ranked # 1 in "2016 edition of the India Disclosure Index"** for Mandatory & Voluntary disclosure practices, amongst India's publicly-listed corporations on the Bombay Stock Exchange ("BSE") 100 Index by FTI Consulting.
- Airtel has been ranked as the **3rd Most Trusted Brand and No.1 Service Brand in India,** across all product and service categories, in the coveted Brand Equity's Most Trusted Brands 2016. Airtel has made a decisive comeback, having moved eight notches, compared to last year's overall ranking of 11.
- Airtel has been rated as **India's fastest mobile network by Ookla** - the global leader in broadband testing and web-based network diagnostic applications. Ookla's findings are based on an analysis of millions of internet speed tests logged on 'modern devices' by mobile customers across India using its popular Speedtest app.
- Airtel has received the **'Best Governed Company Award'** at the 4th Asia Business Responsibility Summit, organised by the Asian Centre for Corporate Governance & Sustainability (ACCGS).
- Airtel wins prestigious **'Golden Peacock Award for Excellence in Corporate Governance'** for the year 2016. The Golden Peacock Awards, introduced by the Institute of Directors in 1991, are now regarded as the holy grail of corporate excellence worldwide. Airtel joins the prestigious list of winners, who are hallmarks of corporate excellence worldwide, judged by their independence, integrity and transparency.
- Bharti Airtel has bagged **The Corporate Treasurer Award** for Asia's Best Treasury and Finance Strategies, 2016 under the 'Best Hedging Strategy' category.
- Bharti Airtel has won the **Best Risk Management Practice Award** in the Telecom Category at India Risk Management Awards instituted by CNBC TV18 and ICICI Lombard. Airtel was recognised for its robust risk-management practices and their implementation as strategic tools for a safe, secure and sustainable growth.
- Airtel's 4G website has won the **Silver Award for its creative design at International Davey Awards.**
- Bharti Airtel has won two awards at the Economic Times Telecom Awards, 2017 under '**Broadband Product' and 'Marketing Campaign' categories.**
- Bharti Airtel has won **two Legal Era Awards at the 6th edition of Legal Era Awards** for the year 2016-17.
- Airtel has been conferred with **'Certificate of Recognition for Excellence in Corporate Governance 2016'** by the Institute of Company Secretaries of India (ICSI).
- Airtel has been **ranked second in 2016 best Indian brands rankings by Interbrand, a leading global brand agency,** in its 'Best Indian Brands report'. The ranking was being done considering the three factors; (a) Brand Financials (b) Brand's role in the purchase decision and (c) its competitive strength.

- Airtel has been **ranked first in a listing of 100 emerging market multinational companies,** as a part of a study on corporate transparency and reporting by Transparency International.
- Airtel has won the prestigious **TM Forum Digital World Award, 2016** in the 'Outstanding Contribution to Improving Business Agility' Category.
- Airtel has been recognised as an "**Innovator & Disruptor in HR Technology Practices"** by the renowned Society for Human Resource Management (SHRM). It is the world's largest association devoted to Human Resource Management.

## Segment-wise Performance

In FY 2016-17, the Group has realigned its internal business segments and accordingly the following changes have been done for reporting of segments operation in India.

a) Erstwhile, Telemedia Services comprised:

i) Homes business, providing fixed-line telephone and broadband (DSL) services to retail customers

ii) Corporate fixed line (voice and data business)

The Company has realigned the reporting of its corporate fixed line (voice and data business) with Airtel Business and accordingly Telemedia Service renamed to Homes Services.

b) Reporting of Airtel Payments Bank (erstwhile, reported under Mobile Services - India) with Others - India.

The historical periods have been re-instated for the above mention segmental changes to make them comparable.

## B2C services

### Mobile Services: India

### Overview

The year saw several business and industry developments, including the entry of a new operator, offering free voice and data, leading to unprecedented wave of consolidation in the telecom sector of India. In FY 2016-17, the Company further strengthened its spectrum portfolio through organic and inorganic routes, and became the only operator in the country to have pan-India 2G, 3G and 4G spectrum. These initiatives will enable the Company to provide world-class voice and data services to its customers across 2G, 3G and 4G technologies. With the launch of 4G services in Jammu & Kashmir, Airtel has now launched its 4G services across India. Wynk Music is now one of the most active music apps in India. It has crossed the mark of 50 Mn app installs during the year. The average daily time spent on the app by users has grown by 25% over the previous year.

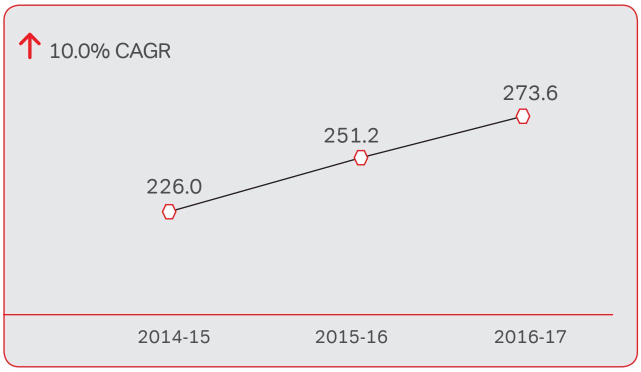
As on March 31, 2017, the Company had 273.6 Mn GSM customers. Total minutes on network in FY 2016-17 increased by 14.4% (highest in last six years), to 1,339.7 Bn. The churn has increased from 3.4% in the previous year to 3.7% in the current year, primarily owing to market turbulence and competitive pressure though the churn percentage is still the lowest amongst all operators. Data revenues, as a percentage of total revenues, increased from 21.8% to 23.2% in the current year. The Company had 57.4 Mn data customers at the end of March 31, 2017, of which 42.7 Mn were mobile broadband customers. The total MBs on the network for the full year has increased by 47.3% to 733.1 Bn MBs.

In FY 2016-17, revenues increased by 0.9% to ₹ 565,511 Mn, compared to ₹ 560,638 Mn in the previous year. The EBITDA margin improved from 39.1% to 40.3% this year. EBIT margin for the year declined to 18.7%, compared to 22.9% in the last year, primarily on account of incremental amortisation cost on new spectrum acquired and incremental depreciation on deployed capex. Incremental amortisation cost on new spectrum acquired in India has an impact of 3.1% on EBIT margin.

The Company continued to invest in networks and spectrum to build data capacities - increasing 3G/4G coverage and improving the all-round customer experience. In line with our commitment to provide best network and customer experience to our customers, the Company had announced a new initiative called 'Open Network' under 'Project Leap'. This bold and disruptive initiative under Project Leap was the first time a telecom service provider had opened its entire network information for its customers and thus partnering with them to provide world-class network. The Company had 162,046 network towers, compared to 154,097 network towers in the last year. To enhance the data capabilities, the Company massively rolled out 72,663 Mobile broadband base stations during the year. With this, the Company has rolled out 136,479 Mobile broadband base stations in last two years.

| Particulars | FY 2016-17 | FY 2015-16 | Y-o-Y Growth |
|---|---|---|---|
| | ₹ Millions | ₹ Millions | % |
| Gross Revenues | 565,511 | 560,638 | 1% |
| EBIT | 105,484 | 128,314 | (18%) |

### Wireless Subscribers: India (Million)




### Key Highlights

- Airtel announced free incoming calls/SMS and zero additional data charges on national roaming. Customers on international roaming are fully protected from bill shocks through an automatic adjustment that is equal to the daily pack for a particular country. The above changes are effective from April 01, 2017.
- Explosion in the data consumption in recent times led to shift in pricing from sachet to bundle. Airtel launched two new innovative bundled packs – at ₹ 145 and ₹ 345 - for its prepaid customers with free voice calling and substantial data benefits. The ₹ 145 pack offers 300 MB data to customers with 4G ready mobile phones along with free local and STD Airtel-to-Airtel calls. The ₹ 345 pack offers 1 GB data to customers with 4G ready mobile phones along with free local and STD calls to any network in India. For non-4G mobile phone customers, both packs will offer 50 MB data.
- Airtel announced an effective reduction in pre-paid data tariffs by increasing data benefits on most of its pre-paid data recharge packs. Airtel customers will now enjoy more value on the existing packs and can enrich their mobile internet experience by staying online longer and download more of their favourite content.

- Airtel announced a new initiative called Open Network under Project Leap, its national network transformation initiative. Accordingly, Airtel opened its entire mobile network information for its customers through an interactive online interface. The new interface will display Airtel's mobile network coverage/strength across India in addition to the network site deployment status.
- Airtel's unique network campaign 'Open Network' has received positive response from customers, who have shared feedback and warm suggestions, along with providing leads for putting up network sites. Consequently, over 13,000 Airtel network sites across the country have been upgraded and over 40,000 have been optimised.
- Airtel announced 25% more stringent voluntary benchmark of 1.5% for mobile call drops versus the current TRAI prescribed norm of 2% under the Quality of Service Regulations. Based on the calculation of call drop rate during network busy hour on a monthly average, any amount calculated for exceeding the 1.5% voluntary benchmark, subject to a maximum of ₹ 1,000 Mn per annum, will be contributed by Airtel towards the education of underprivileged children in rural areas.
- Airtel deploys 4G Advanced Carrier Aggregation technology in Bengaluru, Mumbai, Sikkim and Tamil Nadu for superior 4G experience. This has combined the bandwidth capacities of 2300 MHz (TD LTE) and 1800 MHz (FD LTE) band.
- In an industry first, Airtel 4G in Madhya Pradesh and Chhattisgarh has been rolled out on 10 MHz spectrum in 1800 MHz band using the FD LTE technology to deliver a superior mobile broadband experience to customers.
- Airtel unveiled a new digital gateway with its My Airtel app that will offer the best of web to users through a curated set of apps for all their mobile application needs. In addition to its convenient self-care features, the re-launched My Airtel App will now have an 'Airtel Apps' section that will have a collection of apps under a single interface.
- Singapore Telecommunications Limited (SingTel) and Bharti Airtel Limited (Airtel) have joined hands to deliver high-speed, secure data network coverage to Asia-Pacific, Middle East, Africa, Europe and US. It will combine resources into one network to provide high speed data connectivity to 325 cities across the world through 370 Points of Presence (PoP). This will form one of the largest Internet Protocol Virtual Private Networks (IP VPN) globally.
- Airtel released the latest edition of its India Sustainability Report. Airtel's India Sustainability Report 2016 offers a comprehensive overview of the Company's sustainability initiatives and future vision, taking into cognisance both social and environmental aspects. It also offers detailed insights into how the Company successfully leveraged its wide network and distribution (based on accessibility and affordable services) that has contributed significantly towards societal empowerment and the Company's eco-friendly initiatives.
- Airtel announced a strategic partnership with Netflix. The two companies will collaborate to bring the popular video content to Airtel customers.
- Airtel and Truecaller collaborated to launch Airtel Truecaller ID that extends the caller ID feature of Truecaller to non-smart phone users on Airtel mobile network who do not use data. A subscription-based service, Airtel Truecaller ID will deliver the feature via a Flash SMS before the call hits the user's mobile, easing customer's life from unwanted spam calls. This first-of-its-kind service enables millions of feature phone users to enjoy a 'smartphone like' experience in offline mode and add to their mobile experience.
- Airtel M-Commerce Services Limited, a subsidiary of Bharti Airtel Limited, has been renamed as Airtel Payments Bank Limited (APBL) after receiving necessary approvals from all concerned authorities. APBL also unveiled a new logo to reflect its new identity.
- Airtel Payments Bank became the first payments bank in the country to go LIVE as it rolled out services nationally. Customers in towns and villages will be able to open bank accounts at Airtel retail outlets, which will also act as Airtel banking points and offer a range of basic and convenient banking services. A wide network of merchants (sellers/ shops) will accept digital payments from Airtel Payments Bank customers, offering them the convenience of cashless purchase of goods and services via their mobile phones.
- Airtel successfully concluded the acquisition of the rights to use 20 MHz 2300 Band BWA spectrum allotted to Aircel, in all the eight circles - Tamil Nadu (including Chennai), Bihar, Jammu & Kashmir, West Bengal, Assam, North East, Orissa and Andhra Pradesh.
- Airtel successfully concluded the acquisition of rights to use 2 x 5 MHz spectrum in the 1800 MHz Band allotted to Videocon Telecom in six circles - Bihar, Gujarat, Haryana, Madhya Pradesh, UP (East) and UP (West).
- Airtel fortified its strong spectrum portfolio and secured spectrum requirements for the next 20 years. It is well positioned to continue leading India's digital revolution. Airtel now has 4G and 3G spectrums in all circles, giving it an unmatched mobile broadband footprint across India.
- Bharti Airtel entered into a definitive agreement with Telenor South Asia Investments Pte Ltd to acquire Telenor India. As a part of this, Airtel will acquire Telenor India's running operations in seven circles - Andhra Pradesh, Bihar, Maharashtra, Gujarat, UP (East), UP (West) and Assam. With this, Airtel will add 43.4 MHz spectrum in the 1800 MHz band, further augmenting its overall customer base and network across the country. The closing of the said transaction is subject to certain customary regulatory approvals and other closing conditions.
- Bharti Airtel entered into a definitive agreement with Tikona Digital Networks to acquire Tikona's 4G Business including the Boradband Wireless Access (BWA) 100 MHz spectrum in the 2300 MHz brand, and network infrastructure, in five telecom circles giving it tremendous advantage to handle the surging data demand in the country. The closing of the said transaction is subject to certain customary regulatory approvals and other closing conditions.
- Airtel's popular music app - Wynk Music crossed the mark of 50 Mn app installs. Wynk Music now plays close to one billion songs per month and has witnessed a growth of 200% in daily streams over last year.
- Bharti Airtel successfully completed the secondary sale of over 190 Mn shares of its subsidiary Bharti Infratel Limited (Bharti Infratel) representing 10.3% stake, to a consortium of funds advised by KKR and Canada Pension Plan Investment Board (CPPIB).
- Airtel 4G services are now available all across the country including Jammu & Kashmir.

- Airtel rolled out over 400,000 units of Aadhaar based e-KYC solutions during the year. The Aadhaar-based digital verification offers convenience to customers and benefits the environment by eliminating the use of paper.
- Bharti Airtel Limited and Verizon Digital Media Services, the next-generation digital media platform, have launched new points of presence (PoPs) in four Indian cities: Mumbai, Chennai, Bangalore and New Delhi. This partnership will ensure that content on the Verizon Digital Media Services platform can be accessed by digital media consumers in a fast, seamless and reliable way, significantly enhancing customer experience.
- Airtel launched its Platinum 3G services for customers in Punjab, Bengaluru, Hyderabad and Assam. Airtel Platinum 3G offers a superior mobile experience to customers through faster mobile data speeds, significantly enhanced indoor data coverage and better voice clarity.
- Airtel announced the launch of its 2G and 3G mobile services in remote towns of Lumla, Nafra and Longding in Arunachal Pradesh under 'Project Leap'. This is also the first time that customers in these towns will have access to the 3G mobile services.
- Bharti Airtel, through its subsidiary Bharti Airtel Services, acquired a strategic equity stake in Seynse Technologies Pvt. Ltd., a financial technology (FinTech) company. Seynse (pronounced 'Sense') has created the popular digital lending platform called Loan Singh, which enables easy loans for credit-worthy yet under-served borrowers.

## Homes Services

### Overview

In the Homes segment, the offerings include high-speed broadband on copper and fiber, up to the speed of 100 mbps in 87 cities across India. Besides, the product portfolio also includes local, national and international long-distance voice connectivity and other VAS services.

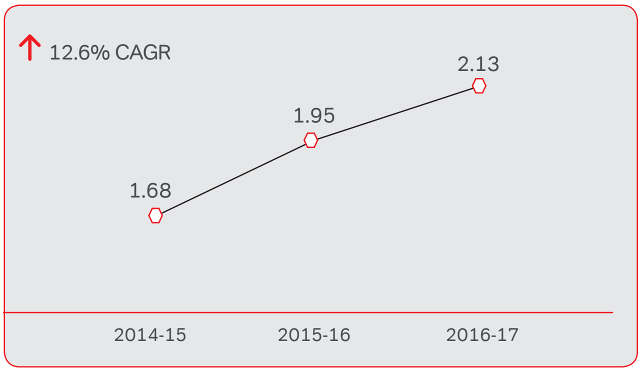
The Company rolled out 'V-Fiber' technology for its Homes customers and became the first operator to deploy vectorisation in India, this enables customers to experience internet speed of up to 100 Mbps. As on March 31, 2017, 62% of total customers were vectorisation enabled.

The Homes business had 2.1 Mn customers as on March 31, 2017, representing a growth of 9.2%, compared to 1.9 Mn at the end of the previous year. DSL customers now represent 92.3% of the total Homes customers, compared to 88.8% in the previous year.

Revenues from Homes services stood at ₹ 27,518 Mn for the year March 31, 2017, compared to ₹ 25,066 Mn in the previous year, an increase of 9.8%. EBITDA margin improved from 42.5% to 47.2% compared to last year.

| Particulars | FY 2016-17 ₹ Millions | FY 2015-16 ₹ Millions | Y-o-Y Growth % |
|---|---|---|---|
| Gross Revenues | 27,518 | 25,066 | 10% |
| EBIT | 6,868 | 5,682 | 21% |

**Homes Subscribers: (Million)**




### Key Highlights

- Airtel launched 'V-Fiber' to deliver superfast broadband to 'Digital Homes'. V-Fiber delivers superfast data speed of up to 100 Mbps over Airtel's existing broadband network and enable a rich online experience in a multi-device environment.
- Airtel rewards all its broadband Homes customers with 5GB free additional data for every Airtel postpaid and/or digital TV (DTH) connection in their home/family. The more connections the customers have the more free data they get.
- Airtel rolled out 'Airtel Surprises' for all home broadband customers to mark the two million customer milestone. 'Airtel Surprises' offered free additional monthly data top-ups and access to over 10,000 movies and TV shows with free subscriptions on Airtel Movies.

## Digital TV Services

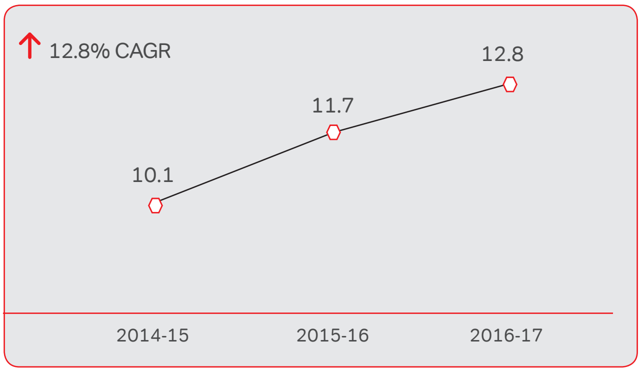
### Overview

The Company served a customer base of 12.8 Mn on its Direct-to-Home platform (Airtel digital TV), as on March 31, 2017, adding 1.1 Mn customers during the year.

The Company currently offers both standard and high definition (HD) digital TV services with 3D capabilities and Dolby surround sound. The Company currently offers 588 channels, including 65 HD channels, five international channels and five interactive services. Revenues stood at ₹ 34,306 Mn for the year March 31, 2017, compared to ₹ 29,178 Mn in the previous year, an increase of 17.6%. Affordability of HD set-top boxes and demand for HD channels led to ARPU increasing by ₹ 5 to ₹ 231, compared to last year. Consequently, DTH business turned positive operating free cash flow on full year basis. The operating free cash flow throughout the year was at ₹ 3,611 Mn against the cash burn of ₹ 1,004 Mn during the previous year.

| Particulars | FY 2016-17 ₹ Millions | FY 2015-16 ₹ Millions | Y-o-Y Growth % |
|---|---|---|---|
| Gross Revenues | 34,306 | 29,178 | 18% |
| EBIT | 3,577 | 1,843 | 94% |

### DTH Subscriber Base (Million)




#### Key Highlights

- Airtel launched 'Internet TV' – India's first hybrid Set-top box (STB), powered by Android TV. This brings the best of online content to the TV screen, along with a bouquet of over 500 plus satellite TV channels. This marks yet another industry first from Airtel that has been at the forefront of innovation in the DTH category.

## B2B Services

### Airtel Business

#### Overview

Airtel Business is India's leading and most trusted ICT services provider. Its diverse portfolio of services includes voice, data, video, network integration, data centre, managed services, enterprise mobility applications and digital media. Airtel Business consistently delivers cutting-edge integrated solutions, superior customer service. It has an unmatched depth and reach to global markets, enterprises, governments, carriers, and small and medium businesses.

Revenues in this segment comprises:

a) Enterprise & Corporate Data and Fixed Line

b) Global Business which includes wholesale voice and data

Revenue of Enterprise & Corporate Data and Fixed Line, together with Enterprise Mobile revenues (included in India Mobile) stand at ₹ 104,004 Mn for the year FY 2016-17, which is now 14.2% of the total India revenues.

Global Business, the international arm of Airtel Business, offers an integrated suite of global and local connectivity solutions, spanning voice and data to the carriers, telcos, OTTs, multinationals and content owners globally.

Airtel's international infrastructure includes the ownership of i2i submarine cable system, connecting Chennai to Singapore and consortium ownership of submarine cable systems like South East Asia - Middle East - Western Europe – 4 (SWM4), Asia America Gateway (AAG), India - Middle East -Western Europe (IMEWE), Unity, Europe India Gateway (EIG) and East Africa Submarine System (EASSy). Along with these seven owned subsea cables; Airtel Business has a capacity of 22 other cables across various geographies.

Airtel Business's global network runs across 50 countries and five continents (250,000 Rkms); and has over 1,150 customers. It is further interconnected to its domestic network in India and direct terrestrial cables to SAARC countries and China, helping accelerate India's emergence as a preferred transit hub. Global Business now serves more than 60% of the SAARC countries' internet requirement.

Leveraging the direct presence of Airtel's mobile operations in 17 countries across Asia and Africa, Global Business also offers mobile solutions (ITFS, signalling hubs, messaging), along with managed services and SatCom solutions.

| Particulars | FY 2016-17 | FY 2015-16 | Y-o-Y Growth |
|---|---|---|---|
| | ₹ Millions | ₹ Millions | % |
| Gross Revenues | 109,429 | 96,993 | 13% |
| EBIT | 22,737 | 18,853 | 21% |

#### Key Highlights

- Airtel launched 'India with Airtel' – a bouquet of end-to-end connectivity solutions for companies looking to set up businesses in India. 'India with Airtel' offers telecom and connectivity solutions to companies under one roof, thereby eliminating the challenge of dealing with multiple vendors and integration issues associated with it.
- Bharti Airtel International (Netherlands) BV (Airtel), a subsidiary of Bharti Airtel, entered into a definitive agreement with Orascom Telecom Media and Technology Holding S.A.E (Orascom) to acquire Orascom' s entire equity stake in Middle East North Africa Company Submarine Cable Systems S.A.E (MENA-SCS). The acquisition is subject to requisite regulatory approvals.
- Airtel Global Business won the **'Best African Wholesale Operator' award** at Telecom Review Excellence Awards 2016.
- Airtel Global Business won the **'Best SMS Solution' award** at Messaging and SMS World Awards 2016. Airtel's Global Messaging Solution suite enables simplified and secure interconnection across worldwide mobile ecosystem.
- Airtel Global Business bagged **'Best Messaging Solution' award** at 2nd Annual Carriers World Awards, 2016. This prestigious award is aimed at recognising excellence and innovation at both the companies and individual level in the global telecom industry.
- Airtel Talk won the **'Best Consumer Service' award** at GTB Telecoms Innovation Awards, 2016.

### Passive Infrastructure Services

#### Overview

Bharti Infratel Limited, a subsidiary of Bharti Airtel, provides passive infrastructure services on a non-discriminatory basis to all telecom operators in India. Bharti Infratel deploys, owns and manages telecom towers and communication structures in 11 circles of India. It also holds 42% share in Indus Towers (a joint venture between Bharti Infratel, Vodafone and Idea Cellular). Indus Towers operates in 15 circles (four common circles with Bharti Infratel, 11 circles on an exclusive basis). Hence, the Company has a nationwide presence with operations in all 22 telecommunications circles of India.

As on March 31, 2017, Bharti Infratel owned and operated 39,099 towers, while Indus operated 122,730 towers. Bharti Infratel's towers, including its 42% interest in Indus, comprised an economic interest in the equivalent of 90,646 towers in India, as on March 31, 2017. Bharti Infratel is listed on the Indian stock exchanges (NSE and BSE).

| Particulars | FY 2016-17 | FY 2015-16 | Y-o-Y Growth |
|---|---|---|---|
| | ₹ Millions | ₹ Millions | % |
| Gross Revenues | 60,829 | 55,589 | 9% |
| EBIT | 17,246 | 14,437 | 19% |

## Africa

### Overview

In FY 2015-16, the group had entered into definitive agreement to sell group's operation in Burkina Faso and Sierra Leone to Orange S.A. In FY 2016-17, on the fulfilment of the regulatory and other closing conditions, the group has consummated the divestment of these subsidiaries. Sale and lease back of 1,510 towers in Democratic Republic of Congo (DRC) and Niger was also completed. With this, the Company had sold and leased back 10,450 towers in 10 countries till now.

During the year, Nigeria Central Bank removed its currency peg and moved to Inter-Bank Rate (IBR) to increase USD supply to the country. Consequently, the Nigerian Naira depreciated 53.7% to USD in the year. The revenue-weighted currency depreciation versus the US Dollar across 15 countries in Africa over the last 12 months (exit March 31 rates) has been 19.35%, mainly because of depreciating Nigerian Naira, Ghanaian Cedi and Ugandan Shilling. In terms of the 12-month average rates, the revenue-weighted Y-o-Y currency depreciation has been 15.5%, because of depreciation in Nigerian Naira and Malawian Kwacha. To enable comparison on an underlying basis, all financials upto PBT and all operating metrics mentioned below are in constant currency rates as on March 1, 2016. These are adjusted for divestment of operating units for all the periods i.e. the comparison till PBT has been given below for 15 countries. PBT, as mentioned below, excludes any realised/ unrealised derivatives and exchange gain or loss for the period.

As on March 31, 2017, the Company had 80.1 Mn customers in Africa across 15 countries, compared to 74.7 Mn customers in the previous year, an increase of 7.2%. Our continuous focus on acquiring quality customers has resulted in lower customer churn for the year at 5.1%, compared to 6.0% in the previous year. Total minutes on the network during the year increased by 7.1% to 140.7 Bn. At the end of the year, 18.1 Mn data customers accounted for 22.6% of the total customer base, compared to 20.3% in the previous year. The total MBs on the network has significantly increased by 95.5% to 139.0 Bn MBs from 71.1 Bn MBs in previous year with usage per customer increasing from 436 MBs to 677 MBs. Voice realisation per minute declined from 1.89 cents to 1.76 cents for the full year. Overall ARPU in Africa marginally declined from USD 3.87 to USD 3.82. Total sites in Africa on March 31, 2017 were 20,337 (PY: 19,254), of which 13,817 (PY: 12,741) were 3G sites, representing 67.9% of the total sites, compared to 66.2% in the previous year.

Airtel Africa revenues grew by 3.5% (4.4% adjusting for the impact of divestment of tower assets) to USD 3,568 Mn, compared to USD 3,448 Mn in the previous year. The Company's continued focus on running the operations efficiently and cost effectively has resulted in the EBITDA of USD 859 Mn for the year, compared to USD 667 Mn in the previous year, increase of 28.7%. Consequently, EBITDA margin improved significantly by 4.7% (5.5% normalised for divestment of tower assets) to 24.1%, compared to 19.3% in the previous year. EBIT for the year was at USD 184 Mn, compared to a loss of USD 2 Mn in the previous year. PBT for the full year was positive for the first time and was at USD 33 Mn, compared to a loss of USD 159 Mn in the previous year. After accounting for full year capex of USD 410 Mn (PY: USD 738 Mn), operating free cash flow was USD 448 Mn as vis-à-vis a cash burn of USD 70 Mn in the previous year.

### In INR Reported Currency

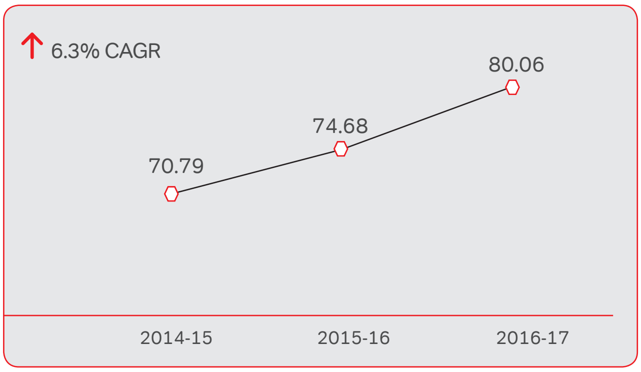
| Particulars | FY 2016-17 | FY 2015-16 | Y-o-Y Growth |
|---|---|---|---|
| | ₹ Millions | ₹ Millions | % |
| Gross Revenues | 219,568 | 251,332 | (13%) |
| EBIT | 10,189 | 4,909 | 108% |

### In USD Constant Currency – 15 Countries#

| Particulars | FY 2016-17 | FY 2015-16 | Y-o-Y Growth* |
|---|---|---|---|
| | USD (CC) Millions | USD (CC) Millions | % |
| Gross Revenues | 3,568 | 3,448 | 3% |
| EBIT | 184 | (2) | |

*Normalising for impact of divestment of Tower assets, Y-o-Y revenue growth is 4.4%

### Wireless Subscribers: AFRICA (Mn) - 15 Countries#




#During the current financial year, Bharti Airtel Limited divested two operating units in Africa. Accordingly, the table has been shown for remaining 15 countries only.

### Key Highlights

- Airtel Rwanda has signed a partnership agreement with Western Union, one of the world leaders in remittances, to ease international money transfers to its customers in Rwanda from across the globe.
- The transaction for the sale of Airtel operations in Burkina Faso and Sierra Leone to Orange S.A. has received full regulatory approval and consequently, the transaction has been closed on June 22, 2016 and July 19, 2016 respectively.
- Airtel divested its 922 telecom towers in the Democratic Republic of Congo (DRC) and 588 telecom towers in Niger to Helios Towers Africa.
- The transaction between Airtel and Government of Tanzania for the sale of Airtel's 35% shareholding in TTCL (a government-owned telecom company) was concluded in June 2016 and Airtel's exit from TTCL was announced by the Government.

- Bharti Airtel Nigeria B.V. (BAN BV), through its wholly-owned subsidiary (Airtel), has completed the acquisition of Econet Wireless Limited's entire 4.2% shareholding in Airtel Nigeria. With this move, the telco's holding in Airtel Nigeria has increased from 79.06% to 83.25%.
- During the quarter ended on December 31, 2016, the Group acquired 24.89% stake in Airtel Ghana Limited via acquisition of shares during its rights issue. Subsequent to the transaction, the shareholding of the Group in Airtel Ghana Limited has increased to 99.89%.
- In Niger, the Company has applied for the allotment of additional spectrum in 900 MHz band.
- Bharti Airtel Limited (Airtel) and Millicom International Cellular S.A. (Millicom) signed an agreement to combine their operations in Ghana through their respective subsidiaries, Airtel Ghana Limited and Tigo Ghana Limited. As per the agreement, Airtel and Millicom will have equal ownership and governance rights in the combined entity. The closing of the said transaction is subject to certain customary regulatory approvals and other conditions.
- In June 2016, the Government of Tanzania passed a new law that requires all telecommunication operators to list at least 25% of their shareholding on Stock Exchange. Accordingly, the Company has filed draft prospectus with the Dar es Salaam Stock Exchange on December 30, 2016.
- In DRC, Airtel has applied for additional spectrum in the 2G and 3G frequencies, as well as for the extension of 2G license, which is expiring in 2019. The Company is currently in discussion with the regulator for the available spectrum, pricing and duration of spectrum holding.

## Awards & Recognition

- **Airtel Nigeria ranked among the top three best employers to work for** in Nigeria in a survey conducted by Jobberman, a sophisticated recruitment, selection and HR solutions company.
- **Airtel has been rated among the top 10 most Admired Brands in Africa** in 2016-17 by Brand Africa.
- **Airtel Ghana was globally adjudged 'Best Telecom Company for Corporate Social Responsibility'** at the 2016 Global Carrier Awards.
- **Airtel Zambia won the 'Best Corporate Social Responsibility (CSR) Education Project'** and the 'Best CSR Partnership in the Community' award at the Public Service Excellence Annual Awards.
- **Airtel Africa won 'Most Innovative Service' award** at AfricaCom 2016. AfricaCom is the largest and most influential Africa-focused tech event and this year's focus was on economic development and social empowerment through digital connectivity.
- **Airtel Nigeria won 'Customer Service Operator' of the year and CEO of the year award** at the Nigeria Telecoms Awards.
- **Airtel Tanzania was awarded Global Telecom Business (GTB) Innovation Award for Airtel Money 'Tap Tap' NFC payments** in the 'customer service' category at the GTB Telecoms Innovation & Technology Summit 2016.
- **Airtel Ghana swept four of the biggest accolades at the Ghana Telecoms and ICT Awards** for 'Best Data and Internet Service Provider', 'Best use of Social Media', 'Marketing Campaign of the Year' for its 'Too Much' campaign and Airtel Ghana's CEO received the 'Telecom CEO of the Year' award.
- **Airtel Uganda won two awards at the Social Media Awards 2016** for 'Best Corporate Social Campaign Online - Together We Can' and 'Best Customer Care Online'.
- **Airtel Zambia won 'Best CSR Award'** for Corporate Social Responsibility Policy, HIV/Aids Policy, Internship Policy and Environmental Management Policy at Zambia Federation of Employers Awards.

## South Asia

### Overview

In FY 2016-17, the Company completed the merger of its subsidiary Airtel Bangladesh Limited (Airtel) with Robi Axiata Limited (Robi Axiata), with effect from November 16, 2016. Consequently, the financial numbers of South Asia, as mentioned below, are not comparable as the current year includes Bangladesh results for part of the year. Full year revenues of South Asia were at ₹ 11,743 Mn, compared to ₹ 16,454 Mn in the previous year. EBITDA for the year was at ₹ 238 Mn, compared to loss of ₹ 801 Mn in the previous year. EBIT losses for the year reported at ₹ 4,018 Mn, vis-a-visa loss of ₹ 6,394 Mn in the previous year. Capex for the year was ₹ 1,830 Mn, compared to 3,321 Mn in the previous year.

| Particulars | FY 2016-17 | FY 2015-16 | Y-o-Y Growth |
|---|---|---|---|
| | ₹ Millions | ₹ Millions | % |
| Gross Revenues | 11,743 | 16,454 | -29% |
| EBIT | (4,018) | (6,394) | 37% |

### Key Highlights

- Bharti Airtel Ltd announced completion of the merger of its subsidiary Airtel Bangladesh Limited (Airtel) with Robi Axiata Limited (Robi Axiata), a unit of Axiata Group Berhad (Axiata). The combined entity has emerged as the second largest mobile operator in Bangladesh with approximately 32.2 Mn active subscribers as on December 31, 2016. The merged entity has the widest network coverage of 99% of the population with over 13,900 on-air sites, of which over 8,000 are 3.5G sites. The shareholding pattern of the combined entity is as: Axiata Group Berhad of Malaysia holds 68.7% controlling stake in the entity, Bharti Airtel Limited holds 25%, while the remaining 6.3% is held by NTT Docomo of Japan.

## Risk Management Framework 2016-17

### Risks and Concerns

At Bharti Airtel, we have thrived globally by building a culture of innovation and high performance. We explore new markets and business models across the world, evolve new ways of customer and stakeholder engagement, enter into new strategic partnerships. Also, we adopt new technologies and build exponential efficiencies in existing systems. While these initiatives unveil a universe of possibilities, potential risks and uncertainties arise in a volatile business environment. The distress signals need to be addressed with urgency for smooth operations. Therefore, we have created a robust risk management framework in our operating landscape. We have a sound practice to identify key risks across the Group and prioritise relevant plans for mitigation.

**At the Board Governance level,** the Risk Management framework is reviewed bi-annually by the Company's Risk Management Committee. The Board of Directors performs an annual review. These apex reviews include: discussing the management submissions on risks, prioritising key risks and approving action plans to mitigate such risks. The internal audit function is responsible to assist the Risk Management Committee on an independent basis with a full status of risk assessments and management. Every quarter, the Risk Management Committee also obtains periodic updates on certain identified risks, depending upon the nature, quantum and likely impact on the business.

**At the management level,** the respective CEOs of the management boards (AMB and Africa Exco) are accountable for managing risks across their respective businesses, viz. India and South Asia, and Africa. The strategic risk registers capture the risks identified by the operating teams (Circles or Operating Companies), as well as the functional leadership teams at the national level. The AMB/Africa Exco ensure that the environment – both external and internal – is scanned for all possible risks. Internal audit reports are also considered for identification of key risks.


**At the operating level,** the Executive Committees (EC) of circles in India and operating companies in the international operations are entrusted with responsibilities of managing the risks at the ground level. Every EC has local representation from all functions, including many centrally driven functions like IT, Legal & Regulatory, Finance and SCM. Besides, it also has customer-facing functions, such as Customer Service, Sales & Distribution and Networks. It is the responsibility of the circle CEO or the Country MD to pull together various functions and partners to manage the risks. They are also responsible for identification of risks, and escalating it to the Centre for agreeing mitigation plans. Operating level risk assessments (RACM) have been concluded at Function/Op Co risk assessment and mitigation plans agreed and kicked off.

Internal audit plans are being drawn up to ensure scope and coverage of these critical risks during the course of next year.

The key risks that may impact the Company and mitigating actions undertaken by the Company comprise:

### 1. Regulatory and political uncertainties (Legal & Compliance)

**Risk Statement:**

- The Company operates in India, Sri Lanka and 15 African countries. Some of these countries (or regions within countries) are affected by political instability, civil unrest and other social tensions. The political systems in a few countries are also fragile, resulting in regime uncertainties; hence, the risk of arbitrary action. Such conditions tend to affect the overall business scenario. In addition, regulatory uncertainties like escalating spectrum prices, call drops/EMF penalties, among others are potential risks the business faces.

**Mitigation:**

- As a responsible corporate citizen, we engage proactively with key stakeholders in countries where we operate; and continuously assess the impact of the changing political scenario. We contribute to the socio-economic growth of these countries through high-quality services to our customers, improved connectivity, providing direct and indirect employment, and contributions to the exchequer. Our annual sustainability report highlights to the larger external environment, the role we are playing in these countries. We maintain cordial relationships with governments and other stakeholders in every country where we operate. The country MDs and circle CEOs carry direct accountability for maintaining neutral government relations. Through our

CSR initiatives (Bharti Foundation), we contribute to social- economic development, especially in the field of education.

- We actively work with industry bodies like COAI, CII, and FICCI on espousing industry issues like penalties, right of way, tower sealing, so on so forth.

## 2. Economic uncertainties (Operational)

**Risk Statement:**

- The Company's strategy is to focus on growth opportunities in the emerging and developing markets. These markets are characterised by low to medium mobile penetration, low internet penetration and relatively lower per capita income, thus offering more growth potential. However, these countries are also more prone to economic uncertainties, such as capital controls, inflation, interest rates and currency fluctuations. Since the Company has borrowed in foreign currencies, and many loans are carrying floating interest terms, it is exposed to market risks. This risks impact which impact the Company's earnings, cash flow and balance sheet. These countries are also affected by economic downturns, primarily due to commodity price fluctuations, reduced aid, capital inflows and remittances. Slowing down of economic growth tends to affect consumer spending, including telecom.

**Mitigation:**

- As a global player, with presence across 17 countries, the Company has diversified its risks and opportunities across markets.
- Through a variety of services, including voice, data, Airtel Money and value added services, the Company has also spread its portfolio.
- To mitigate currency risks, Airtel follows a prudent risk management policy, including hedging mechanisms to protect its cash flow. No speculative positions are created; all foreign currency hedges are taken on the back of operational exposures. A prudent cash management policy ensures that surplus cash is up-streamed regularly to minimise the risks of blockages at times of capital controls. The Company has specifically renegotiated many operating expenditure/capex Fx contracts in Africa and converted them to local currency, thereby reducing Fx exposure.
- To mitigate interest rate risks, the Company is further spreading its debt profile across local and overseas sources of funds to create natural hedges.
- Finally, the Company adopts a pricing strategy that is based on twin principles of mark to market, profitability and affordability, which ensures that it protects margins at times of inflation, and market shares at times of market contraction.

## 3. Poor quality of networks and Information Technology including redundancies and disaster recoveries (Operational)

**Risk Statement:**

- The Company's operations and assets span wide geographies. Its telecom networks are subjected to risks of technical failures, partner failures, human errors, wilful acts, and natural disasters. Equipment delays and failures, spare shortages, energy or fuel shortages, software errors, fiber cuts, lack of redundancy paths, weak disaster recovery fall-back, and partner staff absenteeism, among others are few examples of how network failures happen. Repeated outages and poor quality of networks cause disruption of services, resulting in revenue losses, customer attrition, market share losses and damage to brand image and the Company reputation. Regulators are now also levying stiff monetary penalties for poor quality of services.
- The Company's IT systems are critical to run the customer-facing and market-facing operations, apart from running internal systems. In many geographies or states, the quality of IT connectivity is sometimes erratic or unreliable, which affect the delivery of services like recharges, customer query, distributor servicing, customer activation, and billing, among others. In several developing countries, the quality of IT staff is rudimentary, leading to instances of failures of IT systems and delays in recoveries. The systems landscape is ever changing due to newer versions, upgrades and 'patches' for innovations, price changes, among others. There is a huge dependence on IT staff for the turnaround of such projects. Unauthorised access to network and IT systems can result in wrong configurations, poor quality of service, frauds and regulatory non-compliances.

**Mitigation:**

- Network Planning is increasingly being done in-house, to ensure that intellectual control on architecture is retained within the Company. As part of the previously announced Leap Programme in India, the Company continuously seek to address issues (congestion, indoor coverage, call drops, modernisation and upgrade of data speeds, among others) to ensure better quality of network. Recent efforts also include transformation of the microwave transmission, fiber networks, secondary rings/links and submarine cable networks. The Company consistently eliminates systemic congestion in the network, and removes causes of technical failures through a quality improvement programme, as well as embedding redundancies. Tighter SLAs are reinforced upon network partners for their delivery. The Company's network team performance is measured based on network stability, customer experience and competitor benchmarking. The Revenue Assurance team constantly monitors revenue leakages due to failure of systems or configuration errors. The Company follows a conservative insurance cover policy that provides a value cover, equal to the replacement values of assets against risks, such as fire, floods, and other natural disasters.
- In Africa, a sustained concentrated investment programme based on market revenue mapping and using sub Ghz spectrum for broadband data will ensure that the Company's network quality in these areas are comparable, if not better than competition.
- The Company's philosophy is to share infrastructure with other operators, and enter into SLA-based outsourcing arrangements. It has been proactively seeking sharing relationships on towers, fiber, VSAT, data centres and other infrastructure. The disposal of towers in Africa to independent and well-established tower companies and long-term lease arrangements with them will ensure high quality of assets and maintenance on the passive infrastructure. It has also put in place

redundancy plans for power outages, fiber cuts, VSAT breakdowns, and so on, through appropriate backups such as generators, secondary links, among others. Similar approaches are deployed for IT hardware and software capacities; and internal IT architecture teams continuously reassess the effectiveness of IT systems. The Company's mean time to recovery was the fastest after the recent cyclone in Chennai.

- Information security is managed by dedicated IT professionals, given the huge dependence on automated systems, as well as to ensure that customer privacy is protected.

## 4. Inadequate quality of customer lifecycle management from acquisition to churn (Operational)

### Risk Statement:

- In a market dominated by pre-paid customers, several inefficient processes have crept in over years across the industry, in respect to customer acquisitions. Such practices are resulting in high rotational churn, high acquisition costs, low lifetime value of new customers, diversion of focus of sales force on acquisitions, rather than revenue generation, trade frauds, among others.
- Customer mindsets and habits are shifting rapidly, reflected in their ever-rising expectations in terms of quality, variety, features and pricing. The competitive landscape is also changing dramatically, as operators vie with one another to capture customer and revenue market shares. Failure to keep pace with customer expectations would result in customer churn, leading to erosion of revenues, profits, cash flows, and market share losses.

### Mitigation:

- Improved customer acquisition processes like monitoring new customer acquisition churn, high acquisition recharge denominations, direct distribution, and trade margins structures have been introduced.
- The Company constantly refreshes its ways of working, especially in customer service, innovation, marketing and distribution. These are now captured in the Company's integrated Customer Lifecycle Management approach, which ensures that every customer's behaviour is studied and classified, followed by segmented service and price offerings. Organisational effectiveness is enhanced through appropriate design and creation of leaner and multi-functional teams. Technologies and tools (business intelligence, scientific pricing models) are deployed to managing the customer lifecycle.

## 5. Non-compliance with subscriber verification and KYC regulations (Operational)

### Risk Statement:

- Regulators are introducing more stringent subscriber verification and KYC guidelines, including verification processes capturing biometrics, such as retina scan, fingerprints, among others. The quality of KYC documents is also being stringently scrutinised. Non-compliance with these guidelines entails severe penalties, which is reflected by instances of such actions by regulators on other operators.

### Mitigation:

- With the recent regulatory announcement of allowing Aadhar based eKYC activations in India, the Company has begun investing significantly in KYC tools, including biometric scanners to improve the quality of subscriber activation and documentation processes as per the required legislation. The Company's aim is to disburse the eKYC adoption across its 1.5 Mn retailers. Self-compliance and reinforcing of 'tone at the top' to ensure compliance is the bedrock of our control. Focus on quality of partners and IT systems, staff training, proactive maker-checker controls and internal audits, as well as robust internal MIS help achieve adherence to compliances. Internal MIS on compliance scores, activation time taken, among others have been standardised to achieve greater focus on compliances. Staffs involved in such processes have been revamped to reflect clear responsibilities for compliance to verification and KYC guidelines. Severe management action is taken in case of any non-compliance.

## 6. Increase in cost structure (capex/operating expenditure) ahead of revenues (Operational) impacting liquidity

### Risk Statement:

- Across the markets, cost structures have been increasing both from volumes (new sites rollouts, capacity) or/and rate increases (inflation, Fx impacts, wage hikes and so on). These costs may not be naturally compensated through revenue increases, which are linked to telecom mark to market issues e.g. market tariffs, competitive positions, and idle capacities. The advent of a new disruptive competitor can stretch the balance sheet of the Company in the short run. Consequently, company margins/cash flows can come under severe pressure, putting the financial health of the Company at risk.

### Mitigation:

- The Company has institutionalised the War on Waste (WOW) Programme, an enterprise-wide cost-reduction programme. This has been rolled out across all functions and countries. All countries are targeting cost reductions and cost efficiencies. WOW has also been extended into the capex committees, ensuring stringent monitoring of capex proposals. The proposals now systemically need to cover issues like revenue generating capex ratio, capex trigger, risks, alternates, and competitors, among others.
- Reduction in capex spends and improvement in capex productivity has happened with significant programmes like ICR, fiber sharing IRU, fiber co-build and Africa tower disposal.
- The Company has introduced more scientific approach into the decision-making criteria for investments in new sites.
- The Company is looking at substantial monetisation of its tower assets to bolster its balance sheet position.

## 7. Entry of new competition with disruptive business models (Strategic)

### Risk Statement:

- Entry of a new operator in India into an already crowded telecom market is a potential risk. Disruptive pricing through 'free offers' in the short term and creation of surplus capacities will lead to pricing pressures in the industry; and at the same time accelerate customer migration from legacy 2G/3G networks. This may put pressure on margins/cash for the Company in the short term, before industry consolidates or the surplus capacity is absorbed.

**Mitigation:**

- Airtel has prided itself on being the #1 network operator across the country. Its long term spectrum strategy, based on future technologies and consumer needs have been ahead of the market. The Company, in 2015, was the first operator to launch 4G across India.
- With spectrum acquisitions through auctions and trading (Videocon, Aircel, Augere), Airtel has significantly bolstered its spectrum capacity to face the new data war. Data capacity for Airtel is estimated between 2x to 3x of the #2 and #3 operator in the country. The Company has become the only company with 3G and 4G spectrum across all 22 circles in India.
- Airtel has backed the spectrum bank with significant investments on the ground and as of December 2016, it has nearly 170,000 mobile broadband sites across the country.
- Airtel has also been the preferred network for high value customers; and has the highest ARPU in the industry. The Company has strategic programmes for driving down churn through an integrated and end-to-end experience, providing sharp propositions for high-value customers.
- Also, its unique portfolio beyond wireless consisting of Home broadband, Airtel Business, DTH TV continue to grow and deliver significant value to the Company.

## 8. Issues arising out of emerging businesses and new technologies (Strategic)

**Risk Statement:**

- Evolving technologies result in change in customer value propositions. The quality of internet experience, especially in a seamless manner and indoor environment has emerged as a key competitive parameter. Digital content and apps have now become the favourites for mobile customers. Digital Mobile money technologies, innovative mobile apps, Cloud, M2M, SaaS and other technology-based VAS products are also evolving. Such rapid technology evolution may impact the functionality of existing assets and accelerate obsolescence. Keeping pace with changing customer expectations is a big agenda for the telecom sector.
- There is also a serious risk of unavailability of right skills to grow these emerging businesses and deploy the new technologies. Talent availability in emerging economies is also limited, since the overall demand for good talent far outstrips the supply, specifically for IT and Networks, affecting the performance of our partners also. In addition, there is a need for constantly upgrading skills and competencies of the existing workforce. Skill mismatch leads to failed launches, ill-planned projects, sub-optimal cost structures, faulty asset configurations, among others, which in turn leads to financial losses.

**Mitigation:**

- Airtel's strong strategic vendor relationships – especially in the areas of network technologies, IT, mobile money and a few other key VAS technologies, help it keep pace with technology shifts and retain market leadership. The Company's own digital innovations such as Wynk under which, OTT apps like Music, Movies and Gaming, and My Airtel app, among others are few examples of its keeping pace with the changing landscape.
- The Company has also entered the digital payments space and is the first company to launch a Payments bank. This will enable it to become a key player in this rapidly evolving ecosystem post the demonetisation move in India. In Africa, it is already seeing the benefits of mobile money and on reducing customer churn.
- Airtel has always adopted a holistic approach to talent. For emerging businesses, the Company has defined a sharp and compelling value proposition and firmed up its position in the talent market through focused communication across social media platforms. With majority of talent needs in the technology and product space, the Company has systematically mapped out relevant talent in digital start-ups and fin-tech. The Company has laid out a separate hiring process and leverages new-age social tools, communities & Artificial Intelligence based hiring solutions to keep pace with the changing talent landscape. Selection processes place emphasis on technical capabilities and cultural fit. To sustain & grow these businesses through millennial, the Company has flat structures and a vibrant work environment that fosters the culture of empowerment, collaboration, innovation & high performance. All the process & policies of the companies are designed to drive the culture.

## 9. Adverse regulatory taxation or fiscal taxation developments including risks related to tax positions (Legal & Compliance)

**Risk Statement:**

- Regulatory developments in India, South Asia and Africa can pose several challenges to the telecom sector. The telecom sector is highly taxed with high revenue share-based license fees and significant spectrum acquisition costs in auctions. Besides, there are multiple levies, such as service taxes, excise duties, VAT, and excise duties, among others. The corporate tax rates on profits, combined with withholding taxes on remittances have made the overall tax structure extremely heavy. In several countries, tax litigations are getting prolonged due to ambiguous interpretations and lack of judicial precedents. In some countries, which are undergoing economic challenges, unfortunately, the telecom industry is being seen as a 'cash cow'. The impending rollout of GST in India will have wide ranging impact on the Company's IT systems, trade relations and supply chain.

**Mitigation:**

- The Company has always stood for a fair, transparent and non – discriminatory government policy on telecom regulations. It has insisted governments of all countries that sustainable regulatory regimes will lead to a healthy growth of the sector. It will facilitate higher investments and modernisation, which in turn, will benefit the industry and society. The Company stands for a regime that promotes healthy, competitive pricing, keeping two objectives in mind – customer interests and the sector's health. The Company has been at the forefront of industry cooperation to share infrastructure, minimise impact on the environment, lower operational cost and make services more affordable. As a responsible operator, it participates in government consultation and industry association events, to foster collaboration and knowledge sharing for best industry policies and practices.

- The Company has put in place a GST steering committee to prepare itself for the new GST law. The team comprises members across functions, as the impact will be far reaching across the organisation but with other stakeholders like the Government and trade channels. The Company through COAI has been working actively with the Government GST committees to frame the telecom industry issues.

## 10. Gaps in internal controls (financial and non-financial) – (Operational)

### Risk Statement:

- The Company serves to over 372 Mn customers globally with a monthly average of 156 Bn minutes of voice and 90 Bn MBs of data, on wireless networks located at more than 182,000 sites. Gaps in internal controls and process compliances not only lead to wastage, frauds and losses, but can also adversely impact the Airtel brand.

### Mitigation:

- Airtel's business philosophy is to ensure compliance with all accounting, legal and regulatory requirements proactively. Compliance is monitored meticulously at all stages of operation. Substantial investments in IT systems and automated workflow processes help minimise human errors.
- Besides internal audits, the Company also has a process of self-validation of several checklists and compliances, as well as a 'maker-checker' division of duties to identify and rectify deviations early enough. The Company has implemented GRC systems (Governance, Risk and Compliance) to embed systemic controls.

  The Company has established internal financial controls and the Corporate Audit Group has tested such controls. The Audit Group has asserted that the Company has in place adequate tools, procedures and policies, ensuring orderly and efficient conduct of its business, including adherence to Company's policies, safeguarding of its assets, prevention and detection of frauds and errors. Further, it includes accuracy and completeness of accounting records and timely preparation of reliable financial information.

## Internal Controls

The Company's philosophy towards internal control is based on the principle of healthy growth and proactive approach to risk management. Aligned to this philosophy, the Company has deployed a robust framework of internal controls that facilitates efficient conduct of business operations in compliance with Company policy; fair presentation of the Company's financial results in a manner that is complete, reliable and understandable; ensure adherence to regulatory and statutory compliances; and safeguards investor interest by ensuring the highest level of governance. The internal control framework has been set up across the Company and is followed at the circle and country level. This framework is assessed periodically and performance of circles and countries are measured via objective metrics and defined scorecards.

Accounting hygiene and audit scores are driven centrally through central financial reporting team and Airtel Centre of Excellence (ACE). Both teams are responsible for accuracy of books of accounts, preparation of financial statements and reporting the same as per the Company's accounting policies. Regulatory and legal requirements, accounting standards, and other pronouncements are evaluated regularly to assess applicability and impact on financial reporting. The relevant financial reporting requirements, documented in the Group Accounting Manuals, are communicated to relevant units and enforced throughout the Group. This, together with the financial reporting calendar evidencing the tasks and timelines, forms the basis of the financial reporting process.

M/s. S.R. Batliboi & Associates LLP, Airtel's Statutory Auditors, have done an independent evaluation of key internal controls over financial reporting (ICOFR) and expressed an unqualified opinion stating that the Company has, in all material respects, adequate internal control over financial reporting; and such internal controls over financial reporting were operating effectively as on March 31, 2017.

The Company has in place an Internal Assurance (IA) function, headed by Group Director, Internal Assurance. M/s. KPMG and M/s. ANB & Co (ANB) are the Internal Auditors of the Company who conduct financial, compliance and process improvement audits each year. Audits are categorised into defined assurance tracks, with M/s. KPMG responsible to audit Finance and Technology track and ANB responsible to audit Customer and L&R track. M/s. KPMG and M/s. Deloitte were also engaged to perform forensics work. The internal assurance plan for the year is derived from a bottoms-up risk assessment and directional inputs from the Audit & Risk Management Committee. The Audit & Risk Committee oversees the scope and coverage of the IA plan, and evaluates the overall results of these audits during the quarterly Board Audit Committee meetings. The Audit Committee & Risk also reviews the effectiveness of the internal control system, and invites functional Directors and senior management personnel to provide updates on operating effectiveness and controls, from time to time. An independent validation was also led by the internal assurance function to assess the effectiveness of Internal Financial Controls (IFC) and no reportable material weaknesses in the design or operation were observed.

CEO and CFO certificates from all operating entities, forming part of the Corporate Governance Report, confirm the existence and effectiveness of internal controls and reiterate their responsibilities to report deficiencies to the Audit & Risk Committee and rectify the same. The Company's code of conduct requires compliance with law and company policies. It also covers matters such as financial integrity, avoiding conflicts of interest, workplace behaviour, dealings with external parties and responsibilities to the community.

The Airtel Centre of Excellence (ACE) based in Gurgaon and Bengaluru, is the captive shared service for financial accounting, revenue assurance, SCM and HR processes. Its global footprint across 17 countries is bolstered by standardisation of all these processes across the organisation with inbuilt embedded controls. Digitisation of ACE is aimed as a part of the transformation agenda and includes initiatives like system-based reconciliation, reporting processes with vividly defined segregation of duties. ERP integration in Africa into an Oracle Single instance across all African countries ensures uniformity and standardisation in ERP configurations, chart of accounts, finance and SCM processes across countries. Quality of financial reporting and controls continues to show improvement. The Company continuously examine its governance practices to enhance investor trust and improve the Board's overall effectiveness. Initiatives such as virtual desktop interface for ultimate data security, self-validation checks, desktop reviews and regular physical verification are producing measurable outcomes through substantial improvement in control scores across India and Africa. Oracle Governance Risk & Compliance (GRC) module has been implemented for India and Africa to strengthen existing controls pertaining to access rights for various ERPs, ensuring segregation of duties and preventing possibilities of access conflicts.

The Company was awarded for corporate transparency and reporting in 2016 by Transparency International. This award recognises reporting on anti-corruption programs, organisational transparency and country by country reporting. Further the Company was also awarded the Golden peacock award for excellence in corporate governance for 2016. During the year, the Company was also awarded the Best Risk Management Practice Award in the Telecom Category at India Risk Management Awards instituted by CNBC TV18 and ICICI Lombard for its robust risk management practices and their implementation as strategic tools for a safe, secure and sustainable growth. The honor is in addition to bagging the 'Best Governed Company Award' instituted by the Asian Centre for Corporate Governance & Sustainability.

## Material Developments in Human Resources

Airtel has always been at the forefront of innovation and technological newness, and our human resources have been vital in powering such metamorphosis. For us, honing our human resources is important, around which the Company has modelled one of its five GPS principles – Win with People.

As custodians of the Company's talent, team HR believes that upskilling, empowering and unleashing talent will trigger path-breaking achievements and help sustain the Company's growth trajectory and market leadership. Airtel continued to win accolades as a good employer, including the Aon Best Employers India 2016 and Business Today Best Companies to Work For awards. The Company's page on LinkedIn has been quite popular with more than 285,000 followers, who have turned out to become the Company's biggest brand ambassadors.

In FY 2016-17, Airtel sustained a strong culture of high performance by timely setting of targets, clarity on goals and measurement criteria. Mid-year and annual performance assessments were concluded on time, and the increased emphasis on quality of dialogues between employees and their reporting managers ensured a constructive and development-oriented experience for employees. The Company's unique process of providing 'One View of Talent' through talent councils has ensured identification of and nurturing a robust talent pipeline. Internal succession planning rate of over 70% reflected growth opportunities for in-house talent. The Company continued to hire external talent with critical skills in newer domains such as digital, banking, and machine learning, among others. The design and launch of 'Lead Right' as Airtel's unique model of value-based leadership behaviour, has re-affirmed the Company's commitment to sustaining its culture as the bedrock of its corporate success.

The first ever "Airtel Career Fair" was kicked-off in March 2017 and is a key milestone in the two-decade history of the Company. It marks the arrival of Airtel as a great learning institution in the league of other corporate legends. The idea behind the fair is for employees to take charge of their career and help echo the sentiment, 'I have a future here'.

At Airtel, gender diversity is a key focus area. It partnered with other employers to conduct joint programmes for women leaders. The Company's unique initiatives under the 'WE'- Women Empowered platform were intensified, with the successful roll-out of "WE Lead" (interactions with accomplished women leaders from industry), "WE Chitchat" (mentoring young women) and "WE Achieve" (recognition of top women achievers). One of the Company's young women leaders, Ms. Swathi Madan was adjudged the all-India winner of the prestigious Prof. Ram Charan Young HR Leader Award, conferred by the National HRD Network. Another young woman leader, Ms. Pooja Sablok, was one of the 50 winners of the ET Young Leaders 2016 Award, after undergoing a series of rigorous tests and evaluations from among 32,000 aspirants. Global CIO Ms. Harmeen Mehta was named in the global list of 50 accomplished women leaders by Global Telecoms Business, an international publication. The Company's policy in India was updated to provide 26 weeks of paid maternity leave, along with a pledge to provide the same role or an equivalent one to the woman employee on her return.

Airtel also entered into a partnership with Lynda, LinkedIn's learning hub, which has empowered every employee to chart his/her own learning journey by providing access to the best-in-class online learning resources. HR has also leveraged on a partnership with Cornerstone on Demand to launch iLearn – the Company's Learning Management System. The partnership facilitates self-paced learning for employees by providing them timely and on-demand access to high quality and relevant e-learning content. With more than 11,000 learners completing over 61,000 online courses and attending more than 5,400 class room sessions, the Company made significant strides on the learning front. It also partnered with Harvard ManageMentor, to provide unique and high-quality online leadership development courses to employees at all levels. The Company also launched several digital tools to enhance employee experience such as 'Telecom 101' learning module, and a mobile app named 'Hive', which is not only an internal social media platform, but also enables instant pulse surveys, mobile learning, and travel claims, among others.

Airtel also implemented 'HR on Cloud', a state-of-the-art HR system from Oracle, which enables the Company to manage all people processes seamlessly. Its best people practices are hard-coded and all employees have been empowered with easy-to-use tools that are personalised, digital and social, delivering insights across the entire employee lifecycle. Airtel's successful launch of one global instance, of this system, across 17 countries in one stroke was appreciated at the Oracle OpenWorld India Conference.

## Outlook

India's economy is witnessing a steady economic growth and has been projected to grow at above 7% in 2017. Infrastructure development across sectors will be a key to this economic growth and growth in telecom is fundamental to Government of India's 'Digital' drive. Digital India drive is aimed at potential of digital technologies to address socio-economic challenges in the country and mobile network will play a crucial role in addressing these goals. India is now the second largest smartphone market, overtaking USA. India is also seeing an ongoing shift towards mobile broadband services. Improving profitability, falling smartphone pricing and aggressive network rollouts by operators are driving increased tele-density in the country. India is expected to have 500-600 Mn mobile broadband users by 2020, which will also increase the adoption of mobile banking and commerce opportunities.

Africa's telecom sector continues to grow and the conditions underpinning this growth story are – economic and population growth, increasing urbanisation, rising middle class and investment in infrastructure. Sub Saharan Africa remains the region with the highest growth rate in mobile subscriptions globally. Sub-Saharan Africa is home to young population with 57% population below the age of 15, which will be a key driver in telecom growth story in a few years. Substantial growth opportunities exist in the data market in Africa, both in terms of data connectivity and data-based services. Additionally, mobile money has significantly contributed to changing the financial inclusion landscape. Mobile money continues to improve financial inclusion in Africa.

Telecom operators continue to invest heavily on networks to tap the increased demand from the sector. Bharti Airtel's Pan-India 3G and 4G footprint, pan-India Payments bank operation, South Asia presence, diversified and integrated product portfolio, and network roll outs in Africa will act as major stimulus to the Company's growth against its competitors.