

INDIA

India Telecoms

24 April 2007

BHARTI IN Outperform

Stock price as of 23 Apr 07	Rs	841.05
12-month target	Rs	1,025.00
Upside/downside	%	+21.9
Market cap	US\$m	38,336

Investment fundamentals

Year end 31 Mar		2006A	2007E	2008E	2009E
Total revenue	bn	116.6	187.0	289.4	365.3
EBIT	bn	27.7	49.7	85.8	115.0
EBIT Growth	%	52.5	79.3	72.5	34.0
Adjusted profit	bn	22.6	42.3	69.4	94.3
EPS adj	Rs	11.99	22.31	36.62	49.73
EPS adj growth	%	50.2	86.0	64.1	35.8
PE adj	x	70.1	37.7	23.0	16.9
EV/EBITDA	x	37.6	21.9	13.7	10.5

RCOM IN Outperform

Stock price as of 23 Apr 07	Rs	464.95
12-month target	Rs	650.00
Upside/downside	%	+39.8
Market cap	US\$m	22,855

Investment fundamentals

Year end 31 Mar		2006A	2007E	2008E	2009E
Total revenue	bn	107.7	145.9	204.7	279.7
EBIT	bn	8.0	32.3	51.2	75.0
EBIT Growth	%	nmf	301.7	58.5	46.5
Adjusted profit	bn	4.8	31.5	47.7	68.9
EPS adj	Rs	2.36	15.40	23.35	33.70
EPS adj growth	%	nmf	552.8	51.6	44.4
PE adj	x	197.1	30.2	19.9	13.8
EV/EBITDA	x	38.6	16.8	11.5	8.1

IDEA IN Outperform

Stock price as of 23 Apr 07	Rs	115.05
12-month target	Rs	130.00
Upside/downside	%	+13.0
Market cap	US\$m	7,172

Investment fundamentals

Year end 31 Mar		2006A	2007E	2008E	2009E
Total revenue	bn	29.7	43.3	70.2	102.9
EBIT	bn	5.2	7.5	12.6	16.8
EBIT Growth	%	36.9	44.1	68.6	33.4
Adjusted profit	bn	2.1	4.4	9.3	13.1
EPS adj	Rs	0.94	1.91	3.53	4.97
EPS adj growth	%	176.7	103.8	84.9	40.7
PE adj	x	122.8	60.2	32.6	23.1
EV/EBITDA	x	25.8	22.2	14.2	10.3

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4Q Results preview – sweet surprise

Event

- **Bharti Airtel, Reliance Communications (RCOM) and Idea Cellular**, the three key listed wireless companies, will report their 4Q FY3/07 and FY3/07 results in the coming week: Idea on 25 April, Bharti on 27 April and RCOM on 30 April. We expect good results for Bharti and RCOM, led by better wireless and broadband/fixed line revenues and sustained margins QoQ. Idea should also deliver good numbers, in spite of a slight dip in margins QoQ.

Impact

- **Bharti Airtel** witnessed strong subscriber growth in 4Q FY3/07, when it added 5.1m subs (up 16.2% QoQ and 89.5% YoY), increasing its total subscriber base to 37.1m. Bharti achieved that growth even though it had to deactivate some of its subscribers due to the Government-mandated subscriber verification process. We expect Bharti to increase its subscriber base at a rapid pace in the next few months, reaching 58.5m by March 2008 (a market share of 23%).
- We estimate that Bharti's 4Q FY3/07E revenue increased to Rs55.8bn from Rs49.1bn in 3Q FY3/07 (up 13.5% QoQ). Our revenue estimate for the fourth quarter is 4.4% above the consensus. Our PAT estimate of Rs13.3bn (up 9% QoQ) for 4Q is ~10% higher than the consensus estimate of Rs12.1bn. We believe market is not factoring in economies of scale that Bharti is benefiting from. We believe the market will be positively surprised by Bharti's results.
- **RCOM's** subscriber base fell in 4Q FY3/07 due to deactivation of 15% of its subscriber base in March 2007. RCOM's subscriber base is now ~28.2m. However, its revenue and profitability should not be affected meaningfully by the deactivation because the majority of these subscribers did not generate any revenue for the company in the latest quarter. In 4Q FY3/07, we expect RCOM's revenue to increase to Rs40.6bn (up 8.1% QoQ) and PAT to rise to Rs9.8bn (5.3% growth QoQ). Our PAT estimate is 13.6% above the consensus. We believe that RCOM may have been a significant beneficiary of the strong rupee in the quarter (up ~2% against the US\$).
- **Idea Cellular** will likely report impressive numbers for the quarter in spite of suboptimal subscriber growth. We expect revenues of Rs12.68bn, up 10.4% QoQ, and PAT of Rs1.3bn, up 14.4% QoQ. As discussed in our initiation report, *A money minting IDEA*, dated 20 April 2007, we believe that the launch in new circles will have a negative effect on profitability in FY3/08 and FY3/09. For the long term, however, we remain bullish on Idea and expect EPS of Rs3.5 in FY08, Rs5 in FY09 and Rs9 in FY10.
- For 4Q FY3/07, we forecast wireless ARPU of Rs417 (down 2.3% QoQ and 5.7% YoY) for Bharti and Rs345 (up 5.2% QoQ, but down 8.9% YoY) for RCOM as a result of subscriber deactivation, which pushed up ARPU.

Outlook

- We reaffirm our Outperform rating on all three stocks. Our 12-month target prices are Rs1,025 for Bharti, Rs650 for RCOM and Rs130 for Idea. Bharti is our top pick in the sector, followed by RCOM and Idea.

Please refer to the important disclosures on inside back cover of this document, or on our website www.macquarie.com.au/research/disclosures.

Bharti Airtel – EBITDA margin expansion to surprise the street

- We estimate that Bharti's 4Q FY3/07E revenue will increase to Rs55.8bn from Rs49.1bn in 3Q FY3/07. Our revenue estimate for the fourth quarter is 4.4% ahead of the consensus estimate of Rs53.4bn. However, at the PAT level, we are a lot more bullish than the consensus. We estimate PAT at Rs13.3bn for 4Q FY3/07E. The Street consensus, however, is lower at Rs12.2bn. Our above-consensus view is attributed to the following.
 - ⇒ We believe that the market is not factoring in the economies of scale that Bharti is deriving from its huge subscriber base, pan India presence and consistent market share gains.
 - ⇒ Bharti will likely benefit from exchange rate fluctuations in this quarter. The rupee gained almost 2% in 4Q FY3/07. We estimate total gains at ~Rs500m for Bharti due to a stronger rupee in the quarter.
- For all of FY3/07, we think that Bharti's revenue increased to Rs187bn from Rs116.6bn in FY3/06. We think that EPS were Rs22.3 for FY07, 4.9% higher than the consensus estimate of Rs21.3.
- For 4Q FY3/07E, we estimate that wireless ARPU for Bharti will be Rs417 (down 2.3% QoQ and 5.7% YoY). We believe that Bharti will maintain its ARPU leadership in the Indian wireless industry in the future as a result of its premium positioning and early entry into most circles in India.
- We estimate that Bharti incurred capex of Rs26.4bn in 4Q FY3/07E (up 38.3% QoQ and 9% YoY), primarily in its wireless business, because it increased its population coverage aggressively. We estimate that its population coverage increased by 4% to reach 58% in 4Q.

Reliance Communications – Deactivation unlikely to have an effect

- RCOM's subscriber base fell in 4Q FY3/07 due to deactivation of 15% of its subscriber base, which we believe was 28.2m subscribers at the end of March 2007. However, the deactivation is unlikely to have had any meaningful effect on RCOM's revenue or profit, as guided by management. A majority of the deactivated customers generated no revenue for the quarter. Deactivation of such subscribers has pushed up RCOM's ARPU. We estimate wireless ARPU at Rs345 in 4Q (up 5.2% QoQ, but down 8.9% YoY).
- For 4Q FY3/07, we expect RCOM to report a revenue increase to Rs40.6bn (up 8.1% QoQ) and a PAT gain to Rs9.8bn (up 5.3% QoQ). Our PAT estimate for 4Q FY3/07 is 13.6% ahead of the consensus. Similar to Bharti, RCOM should also benefit from exchange rate fluctuations in this quarter. We estimate a net interest gain of Rs346m for 4Q FY3/07 for RCOM.
- For the full year FY3/07, we estimate that RCOM's revenue increased to Rs145.9bn from Rs107.7bn in FY3/06. We forecast EPS of Rs15.4 for FY3/07, 7.4% higher than the consensus estimate of Rs14.3.

Idea Cellular – Entry into new circles affecting profitability

- Idea Cellular will likely report impressive numbers for the quarter, in spite of suboptimal subscriber growth in this quarter. We think that revenues reached Rs12.68bn, up 10.4% QoQ, and that PAT was Rs1.3bn, up 14.4% QoQ. We believe that the launch into new circles will have a negative effect on profitability in FY3/08 and FY3/09. For the long term, however, we remain bullish on Idea. We note that it takes between 18 and 30 months before a circle turns EBITDA positive.
- Idea is also planning an entry into circles in Mumbai and Bihar in the latter half of FY3/08. It has already started incurring some expenditures for its planned launch, without a commensurate revenue stream. We model entry into the remaining 10 circles in FY3/09. We believe that Idea's margins will be under pressure in the coming quarters as it launches operations in new circles and that this will act as a drag on quarterly profitability.
- For 4Q FY3/07, we expect Idea's revenue to increase to Rs12.7bn (up 10.4% QoQ and 48.2% YoY) and PAT to increase to Rs1.3bn (up 14.4% QoQ and 11.4% YoY).
- For all of FY3/07, we estimate that Idea's revenue will increase to Rs43.3bn from Rs29.7bn in FY3/06 (up 45.9% YoY). We estimate that fully diluted EPS will be Rs1.67 for FY07 compared with Rs0.94 in FY3/06.

Fig 1 Bharti Airtel: 4Q FY3/07 and FY3/07 result estimates

Year to Mar (Rs m)	4Q FY06	1Q FY07	2Q FY07	3Q FY07	4Q FY07E	(% chg YoY)	(% chg QoQ)	FY06	FY07E	(% chg YoY)
Segmental Breakdown of Revenues:										
Mobile revenues	24,134	28,411	33,022	37,579	43,199	79.0	15.0	82,392	142,211	72.6
Broadband & Telephone Service revenues	4,102	5,182	5,244	5,984	6,628	61.6	10.8	15,016	23,038	53.4
Long Distance Service revenues	7,463	7,064	8,362	9,306	10,260	37.5	10.3	24,557	34,992	42.5
Enterprise Service revenues	2,005	1,969	2,148	2,422	2,664	32.9	10.0	7,184	9,203	28.1
Others	(3,590)	(4,063)	(5,205)	-6,162	-6,993	94.8	13.5	(12,514)	(22,423)	79.2
Revenues										
Services	33,625	38,303	43,301	48,929	55,546	65.2	13.5	114,921	186,079	61.9
Indefeasible right to use sales	110	109	109	109	109	(0.9)	-	435	436	0.2
Equipment	379	151	161	91	103	(72.7)	13.5	1,279	506	-60.4
Total Revenues	34,114	38,563	43,571	49,129	55,758	63.4	13.5	116,635	187,021	60.3
Operating Expenses										
Cost of services	15,214	17,126	19,211	21,912	24,624	61.8	12.4	52,663	82,873	57.4
(% of total revenues)	44.6%	44.4%	44.1%	44.6%	44.2%			45.2%	44.3%	
- Access charges, license fees & spectrum charges	9,416	10,007	11,076	12,816	14,420	53.1	12.5	32,933	48,319	46.7
(% of total revenues)	27.6%	25.9%	25.4%	26.1%	25.9%			28.2%	25.8%	
- Network operations costs	3,447	4,754	5,228	5,328	6,022	74.7	13.0	11,742	21,332	81.7
(% of total revenues)	10.1%	12.3%	12.0%	10.8%	10.8%			10.1%	11.4%	
- Employee costs	2,351	2,365	2,908	3,769	4,182	77.9	11.0	7,988	13,224	65.5
(% of total revenues)	6.9%	6.1%	6.7%	7.7%	7.5%			6.8%	7.1%	
Costs of equipment sales	281	335	-48	-48	56	(80.2)	(216.2)	1,151	295	-74.4
(% of total revenues)	0.8%	0.9%	-0.1%	-0.1%	0.1%			1.0%	0.2%	
Selling, general & administrative expenses	5,836	6,081	7,384	7,210	8,248	41.3	14.4	19,218	28,923	50.5
(% of total revenues)	17.1%	15.8%	16.9%	14.7%	14.8%			16.5%	15.5%	
Pre-operating cost	10	9	2	-	-			30	11	-63.3
(% of total revenues)	0.0%	0.0%	0.0%	0.0%	0.0%			0.0%	0.0%	
Total Operating Expense	21,341	23,551	26,549	29,074	32,928	54.3	13.3	73,062	112,102	53.4
(% of total revenues)	62.6%	61.1%	60.9%	59.2%	59.1%			62.6%	59.9%	
EBITDA	12,773	15,012	17,022	20,055	22,830	78.7	13.8	43,573	74,919	71.9
<i>EBITDA Margin</i>	37.4%	38.9%	39.1%	40.8%	40.9%			37.4%	40.1%	
Interest expense	(286)	(2,449)	(618)	711	-618	116.1	(186.9)	(3,096)	(2,974)	-3.9
Interest income	(447)	757	30	607	406	(190.9)	(33.0)	445	1,800	304.6
Depreciation	(4,698)	(4,972)	(5,926)	-7,072	-7,207	53.4	1.9	(15,830)	(25,177)	59.0
Share of profits in associates / joint ventures	(2)	-	4	-6	-	(100.0)		(5)	(2)	
Other income	166	250	320	118	150	(9.6)	27.1	590	838	42.0
Non operating expenses	-92	(1)	-51	-1	-	(100.0)	(100.0)	(102)	(53)	-48.0
Profit Before Taxes (PBT)	7,414	8,597	10,781	14,412	15,562	109.9	8.0	25,366	49,352	94.6
Income tax (expense) / benefit	(549)	(952)	(1,378)	-2,139	-2,179	296.8	1.9	(2,539)	(6,648)	161.8
<i>Effective Tax Rate (%)</i>	7%	11%	13%	15%	14%			10%	13%	
(Profit) / loss to minority shareholders	-41	-96	-66	-122	-132	221.3	8.0	(260)	(416)	60.2
Profit After Taxes (PAT)	6,824	7,549	9,337	12,151	13,251	94.2	9.1	22,567	42,289	87.4
(% of total revenues)	20.0%	19.6%	21.4%	24.7%	23.8%			19.4%	22.6%	
Diluted EPS	3.61	3.98	4.93	6.41	6.99	93.5	9.1	11.99	22.31	86.0
Segmental Breakdown of EBITDA										
Mobile revenues	8,746	10,341	12,179	14,129	16,376	87.2	15.9	29,712	53,025	78.5
Broadband & Telephone Service revenues	934	1,193	1,069	1,613	1,790	91.6	10.9	3,675	5,665	54.1
Long Distance Service revenues	2,771	2,750	3,367	4,002	4,432	60.0	10.8	8,791	14,551	65.5
Enterprise Service revenues	714	936	907	1,092	1,146	60.4	4.9	2,701	4,081	51.1
Others	(392)	(208)	(500)	-781	-913	133.0	16.9	(1,306)	(2,402)	83.9
Segment-wise EBITDA Margin (%)										
Mobile revenues	36.2%	36.4%	36.9%	37.6%	37.9%			36.1%	37.3%	
Broadband & Telephone Service revenues	22.8%	23.0%	20.4%	27.0%	27.0%			24.5%	24.6%	
Long Distance Service revenues	37.1%	38.9%	40.3%	43.0%	43.2%			35.8%	41.6%	
Enterprise Service revenues	35.6%	47.5%	42.2%	45.1%	43.0%			37.6%	44.3%	
Capex	24,207	21,495	32,911	19,078	26,393	9.0	38.3	63,338	99,877	57.7
Mobility	17,674	18,054	27,444	15,597	20,354	15.2	30.5	41,594	81,449	95.8
Broadband & Telephone Service	4,182	3,962	1,631	1,644	3,181	(23.9)	93.5	13,011	10,418	-19.9
Long Distance Service	1,085	1,306	3,232	1,485	1,847	70.2	24.4	5,311	7,870	48.2
Enterprise Services	1,264	55	1,682	1,502	2,010	59.0	33.8	3,394	5,249	54.7
Others	2	(1,882)	(1,078)	(1,150)	(1,000)			28	(5,110)	
Subscriber Base										
Wireless	19.6	23.1	27.1	32.0	37.1	89.5	16.2	19.6	37.1	89.5
Wireline	1.3	1.5	1.6	1.7	1.9	44.6	10.2	1.3	1.9	44.6
ARPU										
Wireless	442	441	438	427	417	(5.7)	(2.3)	474	429	-9.4
Wireline	1,063	1,202	1,115	1,198	1,210	13.8	1.0	1,154	1,182	2.4
Average MoU Per User (Wireless)	431	441	451	467	473	9.8	1.3	407	460	13.2
Average Revenue Per Minute (Wireless)	1.03	1.00	0.97	0.91	0.88	(14.2)	(3.6)	1.17	0.93	-20.0
Average EBITDA Per Minute (Wireless)	0.38	0.36	0.36	0.34	0.33	-11.5	-2.3	0.40	0.34	-15.1

Source: Macquarie Research, April 2007

Fig 2 Reliance Communications: 4Q FY3/07 and FY3/07 result estimates

Year to Mar (Rs m)	4QFY06	1QFY07	2QFY07	3QFY07	4QFY07E	(% chg YoY)	(% chg QoQ)	FY06	FY07E	(% chg YoY)
Segmental Breakdown of Revenues:										
Wireless	21,200	24,320	25,744	27,520	30,124	42.1	9.5	73,637	107,708	46.3
Global	14,158	12,340	13,158	13,335	13,699	(3.2)	2.7	51,858	52,531	1.3
Broadband Service	1,948	2,271	2,710	3,161	3,678	88.8	16.4	5,128	11,819	130.5
Others	440	1,028	1,128	769	808	83.6	5.0	3,213	3,733	16.2
Intersegment eliminations	(8,042)	(7,458)	(7,480)	(7,232)	(7,713)	(4.1)	6.7	(26,172)	(29,883)	14.2
Total Revenues	29,704	32,501	35,260	37,553	40,595	36.7	8.1	107,664	145,909	35.5
Operating Expenses										
Cost of services (a + b + c)	15,460	15,259	15,671	15,856	17,418	12.7	9.9	64,140	64,203	0.1
(% of total revenues)	52.0%	46.9%	44.4%	42.2%	42.9%			59.6%	44.0%	
- Access & License Fees (a)	10,290	9,286	9,068	9,491	10,151	(1.3)	7.0	40,400	37,996	(6.0)
(% of total revenues)	34.6%	28.6%	25.7%	25.3%	25.0%			37.5%	26.0%	
- Network operations costs (b)	3,350	3,816	4,332	4,165	4,628	38.1	11.1	15,350	16,941	10.4
(% of total revenues)	11.3%	11.7%	12.3%	11.1%	11.4%			14.3%	11.6%	
- Employee costs (c)	1,820	2,157	2,271	2,200	2,639	45.0	20.0	8,390	9,266	10.4
(% of total revenues)	6.1%	6.6%	6.4%	5.9%	6.5%			7.8%	6.4%	
Selling, general & administrative expenses	3,764	5,180	6,063	6,426	6,629	76.1	3.2	18,492	24,298	31.4
(% of total revenues)	12.7%	15.9%	17.2%	17.1%	16.3%			17.2%	16.7%	
Total Operating Expense	19,224	20,439	21,734	22,281	24,047	25.1	7.9	82,632	88,501	7.1
(% of total revenues)	64.7%	62.9%	61.6%	59.3%	59.2%			76.8%	60.7%	
EBITDA	10,480	12,062	13,526	15,272	16,548	57.9	8.4	25,032	57,408	129.3
<i>EBITDA Margin</i>	35.3%	37.1%	38.4%	40.7%	40.8%			23.2%	39.3%	
Net Interest	(479)	(999)	(53)	657	346	(172.3)	(47.3)	(2,891)	(49)	(98.3)
Depreciation	(5,460)	(5,514)	(6,237)	(6,524)	(6,825)	25.0	4.6	(16,990)	(25,101)	47.7
Profit Before Taxes (PBT)	4,541	5,549	7,236	9,404	10,069	121.7	7.1	5,151	32,258	526.2
(% of total revenues)	15.3%	17.1%	20.5%	25.0%	24.8%			4.8%	22.1%	
Income tax (expense) / benefit	(137)	(272)	(61)	(130)	(302)	120.5	132.2	(327)	(765)	134.0
<i>Effective Tax Rate (%)</i>	3.0%	4.9%	0.8%	1.4%	3.0%			6.3%	2.4%	
Extraordinary items	(374)	(150)	(150)	(30)	(150)			(374)	(480)	
Reported Profit After Taxes (PAT)	4,030	5,127	7,025	9,244	9,617	138.6	4.0	4,450	31,013	596.9
(% of total revenues)	13.6%	15.8%	19.9%	24.6%	23.7%			4.1%	21.3%	
Adjusted Profit After Taxes (PAT)	4,404	5,277	7,175	9,274	9,767	121.8	5.3	4,824	31,493	552.8
(% of total revenues)	14.8%	16.2%	20.3%	24.7%	24.1%			4.5%	21.6%	
Diluted EPS (Adjusted)	2.15	2.58	3.51	4.54	4.78	121.8	5.3	2.36	15.40	552.8
Segmental Breakdown of EBITDA										
Wireless	7,571	8,746	9,294	10,293	11,355	50.0	10.3	22,490	39,688	76.5
Global	2,632	2,842	3,199	3,552	3,713	41.1	4.5	6,177	13,307	115.4
Broadband Service	606	882	1,215	1,486	1,726	184.8	16.1	760	5,309	598.3
Others	258	230	(116)	(7)	(93)	NA	NA	410	14	(96.6)
Intersegment eliminations	(591)	(638)	(68)	(53)	(152)	(74.2)	187.5	(4,809)	(911)	(81.0)
Segment-wise EBITDA Margin (%)										
Wireless	35.7%	36.0%	36.1%	37.4%	37.7%					
Global	18.6%	23.0%	24.3%	26.6%	27.1%					
Broadband Service	31.1%	38.8%	44.8%	47.0%	46.9%					
Others	58.6%	22.4%	-10.3%	-0.9%	-11.5%					
Capex										
Wireless		13,627	19,455	15,831	30,439			92.3	79,352	
Long Distance Service		7,124	14,983	12,090	24,282			100.8	58,479	
Broadband Service		6,732	3,665	490	2,608			432.2	13,495	
Others		520	270	3,230	480			(85.1)	4,500	
Capital Work in progress		(10,177)	(4,851)	(5,019)	-				(20,047)	
		9,428	5,388	5,040	3,070			(39.1)	22,926	
Subscriber Base										
Wireless	20.2	22.5	26.0	30.0	28.2	39.5	(5.9)	20.2	28.2	39.5
Wireline	0.3	0.3	0.4	0.5	0.6	150.0	20.8	0.3	0.6	150.0
ARPU										
Wireless	379	379	354	328	345	(8.9)	5.2	401	350	(12.8)
Broadband	2,742	2,618	2,420	2,206	2,096	(23.6)	(5.0)	2,904	2,286	(21.3)
Average MoU per User (Wireless)	532	491	461	454	440	(17.2)	(3.0)	538	460	(14.5)
Average Revenue per Minute (Wireless)	0.71	0.77	0.77	0.72	0.78	10.0	8.5	0.75	0.76	2.0
Average EBITDA per Minute (Wireless)	0.25	0.28	0.28	0.27	0.30	16.0	9.4	0.23	0.28	24.2

Source: Macquarie Research, April 2007

Fig 3 Idea Cellular: 4Q FY3/07 and FY3/07 result estimates

Year to Mar (Rs m)	4QFY06	1HFY07	3QFY07	4QFY07E (% chg YoY)	(% chg QoQ)	FY06	FY07E (% chg YoY)		
Revenues									
Service Revenue	8,507	18,953	11,464	12,653	48.7	10.4	29,489	43,069	46.1
Sales of Trading Goods	50	145	19	27	-46.1	45.2	166	191	15.0
Total Revenues	8,557	19,098	11,482	12,680	48.2	10.4	29,655	43,260	45.9
Operating Expenses									
Cost of Trading Goods	(16)	(48)	(13)	(15)	-4.2	11.5	(76)	(76)	0.5
(% of revenues from trading goods)	31.1%	33.1%	72.0%	55.3%			45.8%	40.0%	
Personnel Expenditure	(489)	(1,154)	(759)	(812)	66.1	7.0	(1,781)	(2,725)	53.0
(% of total revenues)	5.7%	6.0%	6.6%	6.4%			6.0%	6.3%	
Network Operating Expenditure	(813)	(2,190)	(1,410)	(1,554)	91.1	10.2	(3,158)	(5,153)	63.2
(% of total revenues)	9.5%	11.5%	12.3%	12.3%			10.7%	11.9%	
License and WPC Charges	(842)	(1,904)	(1,172)	(1,293)	53.5	10.3	(3,020)	(4,369)	44.7
(% of total revenues)	9.8%	10.0%	10.2%	10.2%			10.2%	10.1%	
Roaming & Access Charges	(1,355)	(3,136)	(1,949)	(2,053)	51.6	5.4	(4,963)	(7,138)	43.8
(% of total revenues)	15.8%	16.4%	17.0%	16.2%			16.7%	16.5%	
Subscriber Acquisition & Servicing Expenditure	(1,011)	(2,434)	(1,421)	(1,596)	57.9	12.3	(3,272)	(5,451)	66.6
(% of total revenues)	11.8%	12.7%	12.4%	12.6%			11.0%	12.6%	
Advertisement and Business Promotion Expenditure	(505)	(837)	(566)	(651)	28.9	14.9	(1,253)	(2,055)	64.0
(% of total revenues)	5.9%	4.4%	4.9%	5.1%			4.2%	4.8%	
Administration & other Expenses	(334)	(827)	(486)	(635)	90.2	30.7	(1,457)	(1,949)	33.7
(% of total revenues)	3.9%	4.3%	4.2%	5.0%			4.9%	4.5%	
Total Operating Expense	(5,365)	(12,530)	(7,776)	(8,609)	60.5	10.7	(18,981)	(28,916)	52.3
(% of total revenues)	62.7%	65.6%	67.7%	67.9%			64.0%	66.8%	
EBITDA									
EBITDA	3,193	6,568	3,706	4,070	27.5	9.8	10,674	14,344	34.4
<i>EBITDA Margin</i>	37.3%	34.4%	32.3%	32.1%			36.0%	33.2%	
Other Income	94	62	60	49	-47.9	-18.5	217	171	-21.3
Interest Income	8	9	8	51	535.9	513.6	27	68	152.0
Depreciation	(1,048)	(2,630)	(1,524)	(1,567)	49.6	2.9	(4,451)	(5,721)	28.5
Amortisation of Intangible Assets	(263)	(526)	(277)	(357)	35.8	28.8	(1,044)	(1,160)	11.1
Amortisation of Miscellaneous Expenditure	-	-	-	-	-	-	-	-	-
EBIT	1,984	3,482	1,973	2,246	13.2	13.8	5,423	7,702	42.0
<i>EBIT Margin</i>	23.2%	18.2%	17.2%	17.7%			18.3%	17.8%	
Interest and Financing Charges	(790)	(1,511)	(805)	(915)	15.9	13.7	(3,225)	(3,232)	0.2
Profit Before Taxes (PBT)	1,194	1,971	1,168	1,331	11.4	13.9	2,198	4,470	103.3
Income tax (expense) / benefit	(26)	(10)	(31)	(30)	13.9	-2.7	(80)	(70)	-12.4
Exceptionals	(23)	(41)	(41)				(87)	(83)	
Profit After Taxes (PAT) for the year	1,145	1,919	1,096	1,301	13.6	18.7	2,030	4,317	112.6
Adjusted Net Profit (pre exceptionals)	1,168	1,961	1,138	1,301	11.4	14.4	2,118	4,399	107.7
Diluted EPS									
Diluted EPS	0.52	0.87	0.50	0.49	-4.5	-1.9	0.94	1.67	78.1
Capex									
Subscriber Base	7.4	10.4	12.4	14.0	90.2	12.6	5,293	21,596	308.0
ARPU							7.4	14.0	90.2
Average MoU per user (Wireless)							391	336	-14.1
Average Revenue per Minute (Wireless)							289	354	22.4
Average EBITDA per Minute (Wireless)							1.35	0.95	-29.8
							0.49	0.31	-36.1

Source: Macquarie Research, April 2007

Important disclosures:

Recommendation definitions

Macquarie Australia/New Zealand

Outperform – return >5% in excess of benchmark return (>2.5% in excess for listed property trusts)
 Neutral – return within 5% of benchmark return (within 2.5% for listed property trusts)
 Underperform – return >5% below benchmark return (>2.5% below for listed property trusts)

Macquarie Asia

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South Securities (South Africa)

Outperform – expected return >+5%
 Neutral – expected return from -5% to +5%
 Underperform – expected return <-5%

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Recommendation proportions

	AU/NZ	Asia	RSA
Outperform	44.37%	58.37%	42.60%
Neutral	44.01%	21.30%	46.80%
Underperform	11.62%	20.33%	10.60%

For quarter ending 31 March 2007

Volatility index definition*

This is calculated from the volatility of historic price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Australian/NZ stocks only

Financial definitions

All "Adjusted" data items have had the following adjustments made:
 Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

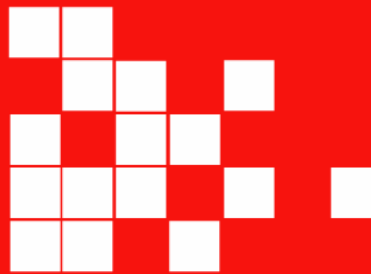
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