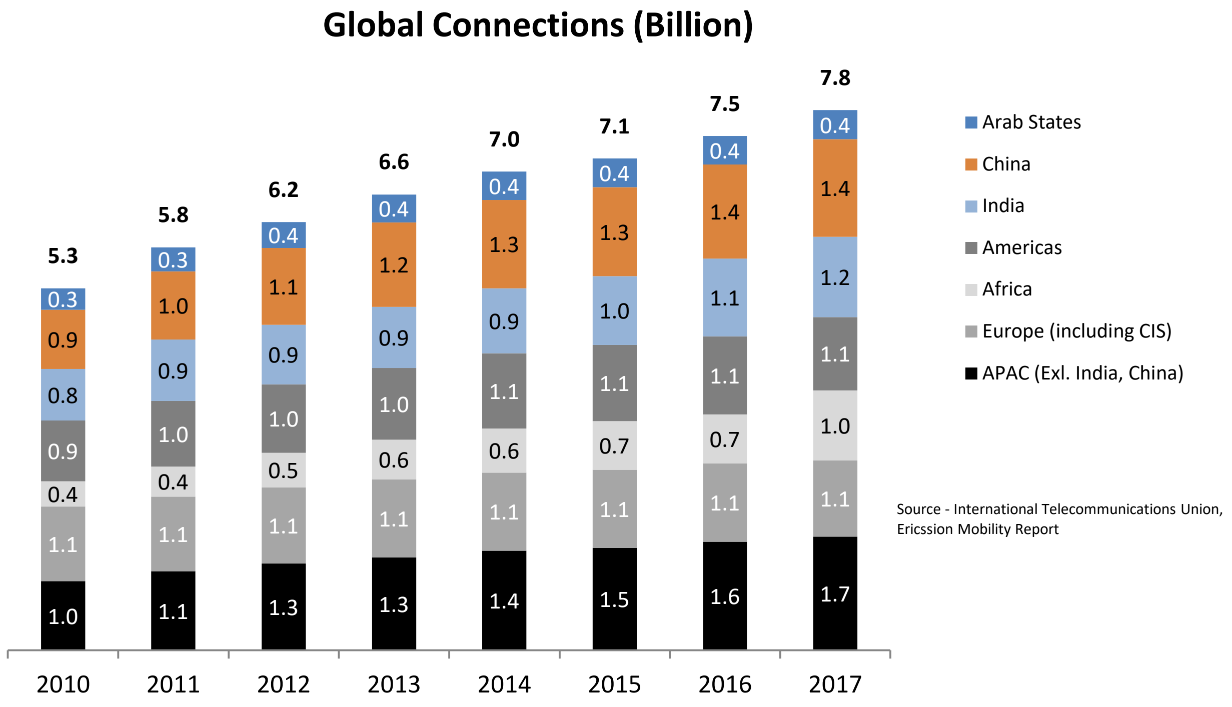
MANAGEMENTS' DISCUSSION AND ANALYSIS REPORT

TELECOM INDUSTRY DEVELOPMENTS

Global Telecom Industry

The mobile industry continues to expand, with a total of 7.8 Billion connections (excluding cellular IoT) at the end of 2017 with unique subscribers crossing 5.0 Billion. 67% of the world's population now has a mobile subscription. The global mobile connections increased by about 5% in the year 2017. Global mobile internet penetration stood at 43% at the end of 2017.



While global mobile connections growth remains modest, mobile data traffic grew at an estimated 42% in 2017 to 14 exabytes per month (one exabyte is equivalent to one billion gigabytes) with Middle East, Africa and India having the highest growth. Mobile data traffic has grown about 13-fold over the past 5 year. Mobile data traffic is forecasted to grow at a CAGR of 42% from 2017 to 2023, reaching 110 exabytes per month by 2023.

Smartphones accounted for most of the growth in mobile traffic for 2017. Smartphones (including phablets) represented 59% of total mobile devices and connections, but represented 85% of total mobile traffic. The average smartphones are forecasted to generate 17 GB of traffic per month by 2023, at 34% CAGR increase over the 2017 average of 2.9 GB per month. Mobile video traffic accounted for 55% of total mobile data traffic in 2017, and is expected to rise to 75% in 2023. (Source: Ericsson Mobility Report, GSMA Mobile Economy)

The transition from 2G to 3G or 4G deployment is a global phenomenon. In 2017, 4G represented the largest share of mobile data traffic by network type. It will continue to grow and is estimated to reach 5.5 billion subscriptions by the end of 2023.

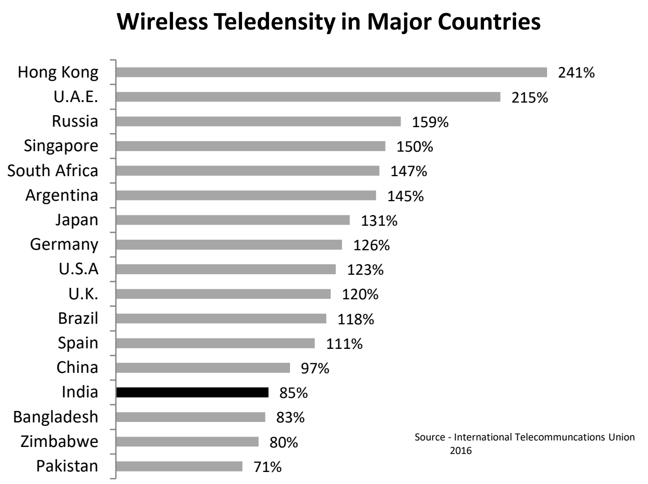
On an interesting note, more members of the global population will be using mobile phones (5.5 billion) than bank accounts (5.4 billion), running water (5.3 billion) or landlines (2.9 billion). Strong growth in mobile users, smartphones and Internet of Things ("IoT") connections as well as network speed improvements and mobile video consumption are projected to increase mobile data eight-fold over the next six years. Smartphone data traffic is expected to grow 9 times, accounting for 95% of total mobile data traffic by end of 2023.

Indian Telecom Industry

Telecom continues to be an integral part of the infrastructure of the Indian economy. With ~1.2 Billion connections and 981 Million Visitor Location Register ("VLR") subscribers, India continues to be the world's second largest telecommunications' market, next only to China. In 2017, VLR subscribers in India grew by about 2.8% which was below the global growth of connections at 5%.

Mobile services have witnessed an exponential growth, with the boom of e-commerce and mobile payments system being energized by Government's push for Digital India. This trend is expected to continue, with Indian economy growing at substantially higher rate compared to its peers.

The teledensity in India still lags compared to other major economies of the world. While countries with similar demographic and economic profiles have achieved much higher penetration of mobile services, India has been catching up. India's teledensity of 85% for 2016 has increased significantly from 74% in 2014, compared to Brazil (118% from 139%), China (97% from 92%), Russia (159% from 155%) and Pakistan (71% from 73%), bucking the trend of de growth in some economies (Source: International Telecommunication Union).



India's teledensity is characterized by a stark difference in the rural and urban areas. As of December 31, 2017, the urban teledensity is ~158% while the rural teledensity is still at 57%. This presents a challenge for the telecom operators – while the network coverage needs to be expanded for more inclusion in rural area, the urban subscribers demand more and more bandwidth with lesser delays over existing networks.

Industry Paradigm is shifted

Post entry of a new 4G operator in FY17, the telecom sector continues to witness intense price wars. This price aggression by all the players to retain their customers and maintain their market share, primarily in form of deep discounted unlimited voice bundled data plans, has significantly affected the industry revenues and financial performance, with industry AGR (Adjusted Gross Revenue) falling by nearly 25.4% (FY18 vs FY17).

The TRAI led regulation changes including

(i) reduction of domestic 'Interconnect Usage Charge' (IUC) from 14 paisa to 6 paisa per minute (effective October 1, 2017) and

(ii) 'International mobile termination' settlement charges from 53 paisa to 30 paisa per minute (effective February 1, 2018),

further aggravated the financial stress for the existing industry operators.

Resultantly, at least 5 mobile operators chose to exit / consolidate and the mobile services industry is seeming to consolidate among 3 large private operators. Further key trends are emerging:

a) multi SIM scenario changing (also reflected in lower VLR growth) and users consolidating their usage to single operator;

b) subscribers are increasing / upgrading to higher data usage.

Immense Pricing Pressure

Rates continued to fall in FY18. The explosion in voice volumes driven by higher adoption of unlimited bundled plans has led to fall in 'rate per minute (RPM)' (including the impact of reduction in IUC rate). Similarly, the mobile data volume (2G+3G+4G) witnessed robust growth while data rate falling upto 80%, resulting in decline of overall industry ARPU.

Hefty investments needed to build robust data infrastructure

Very aggressive expansion of wireless broadband infrastructure needs heavy investments including Voice over LTE (VoLTE) system. The overall capex spend for the year by top 4 operators was Rs.890 billion, majority of which was utilised for 4G expansion. Large investment in spectrum & equipment is inevitable as Digital India mission gathers momentum and mobile internet penetration improves.

Structural changes in consumption of mobile telephony services

The introduction of deep discounted unlimited voice bundled data plans by most operators during FY18 has led to a seismic shift in the consumption of mobile services. The voice usage per subscriber has risen sharply. Similarly, broadband data usage per broadband data subscriber has seen a meteoric growth. Wireless data adoption in FY18 saw a strong surge with launch of unlimited voice & data bundled plans.

KEY REGULATORY DEVELOPMENTS / LITIGATIONS

e-KYC Based Subscriber Verification:

- DoT has issued detailed instructions on e-KYC based verification on March 23, 2017 and asked the Telecom Service Providers ("TSPs") to complete the exercise by February 6, 2018. However, the Hon'ble Supreme Court has extended the last date for re-verification exercise from February 6, 2018 to March 31, 2018. This has again been extended till further order as the case is being heard in the Apex court on validity of Aadhaar.

- The Company has started re-verification of existing subscribers from September 4, 2017.

- DoT has also allowed eKYC activations for fresh connections; re-verification for out station customers; re-verifying NRI/ Foreign Nationals/Senior Citizens/Physically challenged and customers having registered mobile number linked with their Aadhaar numbers through Interactive Voice Response System ("IVRS") and Web site using OTP send by Unique Identification Authority of India ("UIDAI"). The Company has implemented re-verification through IVRS based OTP and Web Based Process of authentication.

- As per UIDAI, in order to secure the biometrics and contain any fraudulent activities, all devices need to be upgraded to ensure device level encryption by July 31, 2017. The Company has started use of Registered Devices.

- DoT has issued guidelines on September 22, 2017 for re-verification of mobile subscribers through Aadhar based eKYC process in case of roaming subscribers and roaming outstation subscribers.

- Hon'ble Supreme Court on April 26, 2018 said while hearing the case on validity of Aadhaar that it had never ordered linking of SIMs with Aadhaar and it was misinterpretation by the DoT. Accordingly, the Company has pulled back all communications towards Aadhaar based re-verification process till further instructions from the DoT.

- DoT has issued instructions on June 12, 2018 with changes on eKYC CAF and TERM Dump and instructed TSPs to remove Aadhaar Number from CAF and Dumps.

- DoT also instructed TSPs not to capture and store Aadhaar Number or Virtual ID of subscriber in database but only store UIDAI token.

- This is done to ensure that Aadhaar Numbers are not misused and subscriber information is safe guarded.

Amendment to the UAS License/CMTS License issued prior to 2001 & Basic License Agreement(s):

In pursuance with Condition 5.1 of the UAS Agreement, DoT has amended/inserted the conditions related to Mobile Switching Centre (also known as MSC). The amendment is effective from June 23, 2017 and states that the Licensee may deploy any of its equipment anywhere in India subject to the interconnection points being located and operated in the respective service areas for inter operator, inter Service area, NLD & ILD calls and meeting the security conditions as mentioned in the license.

Cyber Swachhta Kendra:

- "Cyber Swachhta Kendra" is a Botnet Cleaning and Malware Analysis Centre ("BCMAC"), operated by the Indian Computer Emergency Response Team ("CERT-IN") as part of the Government of India's Digital India initiative under the Ministry of Electronics and Information Technology ("MeitY"). Its goal is to create a secure cyber space by detecting botnet infections in India and to notify, enable cleaning and securing systems of end users so as to prevent further infections.

- The responsibility of notification to end user to download anti - virus from Cyber Swachhta Kendra rests with TSP. CERT IN sends the list of IPs with date and time stamp allocated to TSP/ISP and who in turn needs to identify end user and communicate the message given by CERT-IN.

- Earlier, this process was manual now it has been automated and TTML is in compliance to instructions of CERT-IN.

New Telecom Policy ("NTP"):

- DoT has started working on framing of new Telecom Policy ("NTP 2018").

- Secretary (Telecom) has held meetings with Industry bodies.

- Licensing Reforms, Ease of Doing Business, Emergence of Newer Technologies and encouraging manufacturing and R&D are the focus areas of the NTP 2018.

- Draft NTP document has been approved by Telecom Commission and final policy document is awaited.

Resignation from Association of Unified Telecom Service Providers of India ("AUSPI")

- The Company has resigned from AUSPI membership w.e.f. November 30, 2017.

- AUSPI has been closed w.e.f. December 31, 2017.

Restructure of Spectrum Deferred Payment Option from 10 Instalments to 16 Instalments:

- On the recommendations of Inter Ministerial Group ("IMG"), the Government came out with one-time scheme for TSPs to opt for increased number of instalments from 10 to maximum 16 for payment of spectrum under deferred payment option.

- The Company opted for maximum number of 16 instalments for its deferred payment option for 2015 and 2016 auction.

- For 2015 auction, first instalment was due on April 9, 2018 after a moratorium of two years.

- The Company has made payment of Rs. 442.77 Crores towards first instalment and Rs. 2,248.48 Crores as pre-payment of 10 instalments each for Mumbai and Maharashtra spectrum for 2015 auction.

Changes in Spectrum Cap:

- DoT has also announced changes in the spectrum cap holding for TSP. As per the new norms, the overall spectrum cap is revised from the current limit of 25% to 35%.

- The current intra band cap is removed and a cap of 50% on the combined spectrum holding in the sub-1 GHz band (700, 800 & 900 MHz) is applicable.

TRAI Regulations:
In the FY 2017-18, TRAI introduced Regulation/s on:

- The Standards of Quality of Service of Basic Telephone Service (Wireline) and Cellular Mobile Telephone Service (Fifth Amendment) Regulations, 2017, through this Amendment TRAI has introduced new Network Parameters and revised Financial Disincentives for any contravention. These were published on August 18, 2017.

- The Telecommunication Interconnection Usage Charges (Thirteenth Amendment) Regulations, 2017. Through this Amendment for Mobile to Mobile voice calls, termination charges have been reduced from 14 paisa to 6 paisa effective October 1, 2017. For all other types of calls such as wireline to wireline, wireline to mobile etc., the termination charges would continue to remain ZERO. Revised IUC charges will remain into effect till December 31, 2019. From January 1, 2020 onwards, the IUC charges for all types of domestic calls shall be ZERO. These were published on September 19, 2017.

- The Telecommunication Interconnection Regulations, 2018. As per the regulation interconnection is mandatory and should be made available within 30 days from the receipt of the application from the seeker. These were published on January 1, 2018.

- The Telecommunication Interconnection Usage Charges (Fourteenth Amendment) Regulations, 2018. Through this Regulation International Termination Charges were reduced from Rs. 0.53 to Rs. 0.30 per minute effective February 1, 2018. This was published on January 12, 2018.

- Telecommunication Mobile Number Portability Per Port Transaction Charge and Dipping Charge (Amendment) Regulations, 2018. Through this Regulation TRAI has reduced the per port transaction charges from Rs. 19/- to Rs. 4/-. These were published on January 31, 2018.

- Telecommunication Tariff (Sixty Third Amendment) Order, 2018. Amendments deal with reporting requirements, guiding principles for checking transparency in tariff offers, definition of non-discrimination, adherence to the principle of non-predatory pricing, definition of predatory pricing, relevant market, assessment of significant market power (“SMP”) and other related provisions. These were published on February 16, 2018.

- The Standards of Quality of Service of Basic Telephone Service (Wireline) and Cellular Mobile Telephone Service (Sixth Amendment) Regulations, 2018. These regulations would come into force on October 1, 2018. In this regulation, two additional parameters namely, QoS Downlink PDCP SDUs Drop Rate (DL-PDR) and Uplink PDCP SDUs Drop Rate (UL-PDR). These parameters are to be reported as part of QoS Periodic Monthly Report from the quarter starting from October 1, 2018. These were published on July 31, 2018.

TRAI Directions:
In the FY 2017-18, apart from directions in relation to specific service providers, TRAI provided directions and/or amendments, thereto covering:

- Direction to service providers regarding unsolicited bulk SMSs relating to investment in securities market through TRAI has issued guidelines for sending SMSs regarding investment advice. These were published on August 10, 2017.

- Direction to all Access Service Providers regarding online filling of tariff offers. Through this direction, the Authority hereby directs all the Access Service Providers to report to the Authority with effect from the June 30, 2018, through XML API web-service, all the tariffs offered to the consumers, in addition to the existing Tariff Reporting requirements. These were published on May 23, 2018.

TRAI Recommendations:
In the FY 2017-18, TRAI made the recommendations on the following topics, namely:

- Adoption of e-KYC Service UIDAI for Fixed-line, Internet and Broadband Connections. Through this TRAI recommended laying down appropriate format for verification/re-verification of all subscribers availing Internet and Broadband Subscribers. Similar to mobile connections. These were published on May 16, 2017.

- Recommendations on ‘Issues related to Closure of Access Services’. These were published on July 31, 2017.

- Recommendations on Cloud Services. These were published by TRAI on August 16, 2017.

- Recommendations on “Spectrum, Roaming and QoS related requirements in Machine-to-Machine (“M2M”) Communications. These were published on September 5, 2017.

- Recommendations on ‘Introduction of UL (VNO) for Access Service authorization for category B license with districts of a State as a service area’. These were published on September 8, 2017.

- Recommendations on Approach towards Sustainable Telecommunications. These were published by TRAI on October 23, 2017.

- Recommendations on Regulatory framework for Internet Telephony. These were published by TRAI on October 24, 2017.
- Recommendations on Net Neutrality. These were published by TRAI on November 28, 2017.
- Recommendations on "Ease of Doing Telecom Business. These were published by TRAI on November 30, 2017.
- Recommendations on "Network Testing Before Launch of Commercial Services. These were published by TRAI on December 4, 2017.
- Recommendations on In-Flight Connectivity (IFC). These were published by TRAI on January 19, 2018.
- Recommendations on ''Next Generation Public Protection and Disaster Relief (PPDR) communication networks''. These were published by TRAI on June 4, 2018.
- Recommendations on Making ICT accessible for Persons with Disabilities. These were published by TRAI on July 9, 2018.
- Recommendations on Privacy, Security and Ownership of the Data in the Telecom Sector. These were published by TRAI on July 16, 2018.
- Authority's response to DoT's Back Reference on TRAI Recommendations dated October 24, .2017 on Regulatory Framework for Internet Telephony. These were published by TRAI on July 16, 2018.
- TRAI's Response to DoT reference back on Recommendations on Ease of Doing Telecom Business dated November 30 2017. These were published by TRAI on July 20, 2018.
- Recommendations on Method of allocation of spectrum for Public Mobile Radio Trunking Service (PMRTS) including auction, as a transparent mechanism. These were published by TRAI on July 20, 2018.

Major Litigation

Dual Technology

The Cellular Operators Association of India ("COAI") challenged the DoT Press Release dated October 19, 2007 allowing the existing licensees to use dual technology i.e., CDMA operators were permitted to acquire and use GSM spectrum for providing GSM services and vice-versa ("Dual Tech Policy") before TDSAT, which upheld the Dual-Tech Policy by order dated March 30, 2009. TTML GSM admin spectrum in 1800 MHz band was allocated under this Dual Tech Policy. COAI challenged the TDSAT order before the Supreme Court, praying that the Dual Tech Policy should be repealed and the GSM start-up spectrum should be cancelled. The matter is pending and has been adjourned sine-die.

3G Intra Circle Roaming ("ICR")

The Company challenged the DoT's circular dated December 23, 2011 directing it to (i) stop provisioning of 3G Intra Circle Roaming ("3G ICR") services under the intra service area roaming arrangement in service areas where the Company was providing 3G services through other operators without obtaining the 3G spectrum; and (ii) show cause notice of Rs. 500 Crores. The circular was challenged by the Company before TDSAT. The TDSAT vide its judgment dated April 29, 2014, held that 3G ICR arrangements do not violate any provision of the UASL. The DoT filed an appeal before the Supreme Court against the said judgment passed by the TDSAT. The matter is pending before the Supreme Court. The Company filed another Petition No. 02/2017 in TDSAT on January 6, 2017 with a prayer to allow 3G ICR under unified license and TDSAT directed that the Company can enter into 3G ICR and DoT shall not take any coercive action against the Company. Since, 3G ICR is the core issue, the Supreme Court judgment will impact the ICR under UASL and as well as unified license.

Adjusted Gross Revenue ("AGR") Definition:

The DoT issued various demand notices to TTML towards shortfall in license fees for FYs 1999-2000 to 2005-2006 for Rs. 4.70 Crores contesting that the components of the AGR (for e.g., gains from foreign exchange fluctuation, insurance claims in respect of capital assets-insurance claims) considered by the Company while arriving at the demand amount were not in accordance with the definition of AGR under the Unified Access Service Licenses ("UASL"). The details of the AGR components which have been challenged in the Supreme Court are detailed in Annexure 1 to Schedule C. The DoT has issued AGR demand for license fees for the FY 2006-11 for Rs. 1,446.87 Crores. Please refer to Part B for details of the notices. In case, the Supreme Court judgment goes against the Company, the Company will have to pay as per the revised demand of DoT.

One Time Spectrum Charges ("OTSC"):

- After the 2G judgment by the Supreme Court in February 2012, the DoT in December 2012 levied one time spectrum charges ("OTSC") on administratively allocated CDMA spectrum. The Government decisions dated November 8, 2012, December 28, 2012 and March 15, 2013 under which the OTSC was charged, permitted the operators to surrender the CDMA spectrum beyond 2.5 MHz (CDMA) till April 2013 in case the operators did not want to pay OTSC. The Company received a demand note from the DoT towards OTSC of Rs. 290 Crores for retention of CDMA spectrum beyond 2.5 MHz (excess spectrum) with effect from January 1, 2013 till expiry of license. The Company filed a writ petition dated April 4, 2013 before the Mumbai High Court challenging the demand. Subsequently, the Company retained 1.25 MHz (out of excess 2.5 MHz) in Mumbai and surrendered balance 1.25 MHz in August, 2013 and surrendered excess spectrum in Maharashtra in November, 2013 and has paid OTSC in respect of spectrum retained in Mumbai. The Company has paid 4 installments out of 4 amounting to Rs. 120 Crores.

The surrender of the excess spectrum and the payment of OTSC by the Company is without prejudice to rights of the Company.

- Subsequently, the Mumbai High Court stayed the demand for OTSC on April 9, 2013. The DoT has objected to the jurisdiction of the Mumbai High Court to entertain challenge to OTSC on the ground that TDSAT has exclusive jurisdiction to adjudicate the issues raised in the writ petition. The matter is pending.

Electromagnetic Frequency (“EMF”) Radiation Penalty:

- Operators filed first joint industry Petition No. 271 of 2013 dated August 26, 2013 before the TDSAT challenging the DoT circular dated October 11, 2012 on “Scheme of Penalty in case of Violation of Terms and Conditions of License and Related Instructions on the Matter of EMF Radiations” which was applicable retrospectively from May, 2010 and prescribed a uniform penalty of Rs. 5 Lakhs for each instance, on the ground that the circular prescribed totally disproportionate penalty for the alleged delay in submission of self-certificates and delay in submission of compliance certificates.

- So far, TTML has received 16 show cause notices for Rs. 202.1 Crores and 11 demand notes for Rs. 201.8 Crores. Please refer to Part C for details of the notices. The total demands challenged under Petition No. 271 of 2013 were for Rs. 199 Crores, basis delay in submission of self-certificates and compliance certificates, which have been set aside by TDSAT. The DoT has not filed the appeal against the order.

- Other joint petitions (total of 4) in TDSAT challenging the issue of (i) penalty for missing/improper/absent signages on the cell sites (Petition No. 223 of 2014); (ii) against testing fee (Petition No. 500 of 2014); (iii) penalty for sharing operators to submit fresh self-certificate on up-gradation (Petition No. 199 of 2015); and (iv) penalty to all sharing operators due to non-compliance on EMF exposure (Petition No. 133 of 2015) are pending adjudication. TDSAT has directed DoT not to take any coercive measures for enforcement of the impugned demand notices/invocation of bank guarantee in the above four petitions.

Wireless Planning Commission (“WPC”) Spectrum Dues:

WPC raised various demand notes relating to microwave charges, for amount of Rs. 185 Crores which were challenged by the Company. The Company’s contention was that there was discrepancy in the charges imposed by the DoT (for instance, the DoT had charged for carriers which were either surrendered by the Company or not allocated to the Company or already paid for by the Company). The Company filed a petition before the TDSAT challenging the demand notes, post which the DoT issued revised demand of Rs. 121.37 Crores. The revised demand is primarily due to Adjusted Gross Revenue (“AGR”) re-assessment, charging of compound interest and levy of penalty and interest on penalty on the Company for the period starting from FY 2005-06 to FY 2011-12 for all the circles. The Company’s contention is that pursuant to the order of the TDSAT, the Company would only be liable for simple interest on the microwave charges imposed by the DoT (i.e., no penalty or compound interest could be levied by the DoT). Hon’ble TDSAT deferred the matter until the disposal of Civil Appeal pending before the Hon’ble Supreme Court for a similar case by other operator.

Mumbai Circle TERM Penalty:

- TTML received demand notices dated February 22, 2011, April 30, 2014, December 7, 2015, January 14, 2016, March 31, 2016 amounting to Rs. 117.72 Crores from Mumbai Circle TERM Cell imposing penalties alleging non-compliance of subscriber verification norms. It was further averred in the demand note that failing the immediate payment of the penalty, the TERM Cell may invoke and encash the bank guarantees furnished by TTML to DoT. It is a license requirement to verify credentials of each acquired customer. The penalty was challenged before the TDSAT and Delhi HC. Delhi High Court, on March 23, 2018 directed DoT that if DoT intends to take any coercive action, it would approach the Delhi HC first.

- TTML received additional demand note(s) amounting to Rs. 30.74 Crores from Mumbai and Maharashtra Circle TERM Cell. Please refer to Part D for details of the notices. TTML filed a writ petition before the Mumbai High Court challenging the demand note of Rs 19.79 Crores and was granted a stay. The balance demand of Rs. 10.95 Crore has been represented to TERM Cell and response is awaited. If the matter is ruled against the Company, the Company may be forced to pay the penalty along with interest.

Rollout Obligation GSM and CDMA:

- DoT had issued Show Cause Notice (“SCN”) alleging default in compliance of first year roll out obligations for GSM service dated June 13, 2016 covering the Company’s circle of Maharashtra. Total Liquidated damages (“LD”) as per SCN dated June 13, 2016 amounts to Rs. 7 Crores for Maharashtra service area. DoT issued a Demand Note (“DN”) on March 15, 2018 for Rs. 7 Crores in respect of TTML circles. TTML challenged the DN dated March 15, 2018 in TDSAT vide Petition No. 51/2018. TDSAT, vide orders dated April 4, 2018, stayed the demand letters and restrained DoT from taking coercive action, including encashment of bank guarantees. The next date of hearing is August 16, 2018.

- DoT had re-issued SCN dated June 13, 2016 in line with SCN dated June 4, 2007 alleging default in compliance of first year roll out obligations for CDMA services in Mumbai and Maharashtra. There was no LD for 3rd year rollout. Total LD as per SCN dated June 13, 2016 amounts to Rs. 3.70 Crores in respect of TTML circles. DoT had issued a DN on March 15, 2018 for Rs. 3.7 Crores in respect of TTML Circles. TTML challenged the DN dated March 15, 2018 in TDSAT vide Petition No. 52/2018. TDSAT, vide orders dated April 4, 2018, stayed the demands and restrained DoT from taking coercive action, including encashment of bank guarantees.

APTEL issue

By way of Multiyear Tariff Order dated November 3, 2016 passed by the Maharashtra Electricity Regulatory Commission ("MERC"), the mobile towers were re-categorized and covered under the commercial tariff as against the industrial tariff applicable to the mobile towers under the previous tariff orders. The said Tariff Order dated November 3, 2016 has been challenged by various telecom operators as well as IP1 companies before the APTEL by way of appeals under section 111 of the Electricity Act and all appeals have been clubbed and heard together. Interim protection has been granted by the APTEL in favour of the appellants including TTML, with a direction that subject to the outcome of the appeals filed by the telecom operators and IP1 companies before it, the appellants shall pay to the Maharashtra State Electricity Distribution Company Ltd. ("MSEDCL") the tariff in terms of industrial category including all outstanding and the current dues, without prejudice to the rights and contentions of all the parties and there shall be no coercive steps taken by MSEDCL. In view of the above orders, which is still in force, the appellants are not required to make the payment as per the commercial tariff as made applicable by virtue of the aforesaid impugned tariff order dated November 3, 2016. This matter is significant from the point of view of its far reaching implications on telecom operators in general and TTML in particular if the case is decided by APTEL in favour of MERC. The IP vendors have already been paying as per the commercial tariff (as they joined the litigation little later in APTEL), and hence the IP vendors are now seeking an undertaking from the telecom operators that they would pay and settle if the APTEL/Court decides that the commercial tariff shall apply. The operators (including TTML) have agreed to this and some have already issued such undertaking.

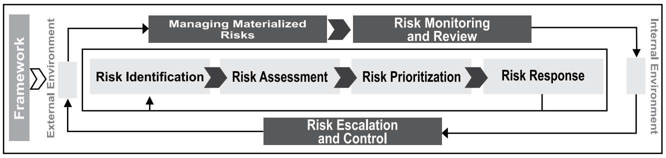
RISKS AND CONCERNS

This section discusses the various aspects of enterprise-wide risks management. It might be noted that the risk related information outlined here is not exhaustive and is for information purpose only.

The Company has formulated a well defined and dynamic enterprise risk management ("ERM") program. The program is governed by a comprehensive risk management policy, which, amongst others, includes the risk management governance structure and the risk management process.

The Central Risk Office actively monitors the risk management process. Results of the risk management activities are periodically presented to the Risk Steering Committee and Audit Committee of the Board of Directors.

The risk management process enables proactive identification, recording, tracking of risks and monitoring of mitigation plans to respond to changes in business and regulatory environment. The risk management process is embedded in all facets of Company's work systems, thereby reassuring all stakeholders, customers, investors, employees and partners of the Company's business sustainability.



The ERM framework aims to realize the following benefits for the organization:

1. Enhance risk management;
2. Facilitate risk based decision making;
3. Improve governance and accountability;
4. Enhance credibility with key stakeholders such as investors, employees, government, regulators, society etc.;
5. Protect and enrich stakeholder value.

The Company is exposed to a number of risks such as regulatory risks, technology risks, financing risks and competition risks. An effective and dynamic risk management process enables the Company to manage and mitigate the impact of these risks. The key risks facing the Company include:

1. **Market and Competition Risks**

   FY17-18 witnessed intense pricing competition which led to lower tariffs and margins. This has resulted in significant pressure on the financial position of the operators thereby leading to difficulty in sustenance of operations. This has led to consolidation among the various operators in the industry.

   Given this background, during the FY 2017-18 TTML decided to exit from the business. In October 2017, the Company decided to transfer the Consumer Business by way of demerger into Bharti Airtel Ltd. as per the terms and conditions of the transaction and subject to necessary approvals.

   Further, the Company has been exploring various options pertaining to the Enterprise and Retail Wireline business units.

   Further, a roadmap has been defined to sustain operations until the completion of the transactions. The Company has taken necessary measures to ensure confidence of customers by effectively serving in line with their expectations and demands, through a bouquet of innovative solution-driven products and services, partnering with other operators for local and national roaming for wireless services, thereby enhancing customer experience. Further, additional investments have been planned to improve quality of wireline networks.

2. **Regulatory Risks**

   Telecom industry continues to face plethora of changes from Regulatory point of view. The Company has a legal and statutory compliance program in place to continuously scan the regulatory environment, identify the changes applicable to the Company's operations and undertake measures to comply with the regulatory requirements.

During the FY 2017-18, the Company continued to tackle litigation issues in various courts in the areas of a) Telecom Policies and Licenses in areas of dual technology, b) allocation of access and microwave spectrum, c) EMF radiation, d) green technology, e) security guidelines, f) EKYC of existing subscriber base, g) Minimum Rollout obligation, h) Rural DEL, i) AGR definition and the decision to charge OTSC within contracted quantum of spectrum, j) CAG audit report observations, k) penalties levied by TERM cell etc. have led to litigation and these issues are now pending before various courts. There are significant financial penalties under challenge and it carries significant regulatory risk, in case the court judgments are not favorable to the Company.

3. Technological Risks

The technological outlook in the telecom industry has seen swift changes in the recent past. New services offerings such as 4G have been launched by competition and these products have impacted the existing voice and data offerings of the Company.

The legacy architecture and the absence of vendor support and adequate skill sets to cater to maintenance of the infrastructure leads to higher operational costs. To enable the Company to move in synchrony with the changes in technology significant investments may be required both in spectrum and the network infrastructure.

Overall infrastructure related developments like construction of metro transportation networks, State & National Highways, etc., could involve extensive realignment and digging of roads and thereby possibly impacting our Optical fiber network, which might result in disruption of services / down-time to our customers.

Given that the Company decided to transfer the consumer mobile wireless business, the requirement of wireless customers have been addressed by way of arrangements with other operators in the form of Intra circle and national roaming to ensure parity with the competition in GSM and 3G technology offerings.

Further, plans are in place to re-architect the network to make it suitable for Enterprise Grade services as well as grow the network to meet the projected AOP of Enterprise business.

4. Financing Risks

The Company has been severely constrained in its ability to meet its capital expenditure and/or for repayment of debt. The Company has experienced difficulties in its borrowing programs in the past and with the current exercise to sell / merge / demerge consumer & enterprise businesses may continue to affect the ability of the Company to raise additional funds from Banks and Financial Institution. Further the terms of raising fresh capital may not be in line with past terms and conditions and/or may be subject to such covenants which may be challenging for the Company to adhere to thereby impacting the costs of not only incremental capital but also existing debt adversely.

Given the above and in order to effectively manage funds and address working capital requirements, the long term loan repayments have been harmonized to align with the projected cash flows by way of infusion of funds by shareholders and through short-term borrowings. Further there have been series of cost optimization initiatives undertaken to reduce strain on fund requirements.

5. Talent Retention Risks

Given the background of volatile and uncertain times, key talent retention assumes a significant risk. In order to address this and to improve employee confidence, measures have been put in place to continuously engage with the employees by way of periodic communication of key developments, ongoing rewards and recognition initiatives, etc. To sustain the operations, the risk of employee attrition is addressed by deploying third party resources, where necessary.

Further, the Company has been working to ensure workforce optimization by providing various internal career movements and rolling out voluntary separation options.

6. Brand Risks

With the exit of NTT Docomo, the Company needs to exit from Tata Docomo brand. As a part of the brand transition exercise, from Tata Docomo to an alternate brand, the Company has decided to retain the Tata Docomo brand for its Consumer business until the completion of transaction. For Enterprise business, transition to the new brand “Tata Tele Business Services” has been completed. For Retail Wireline business, the transition to new brand “Tata Tele Broadband” has been completed.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

An Audit Committee of the Board of Directors has been constituted as per the provisions of Section 177 of the Companies Act, 2013 (the “Act”).

The internal audit for various functions/aspects is conducted by the independent firms, which conduct reviews and evaluation and present their reports to the Audit Committee and the management at regular intervals.

The Internal Auditors’ reports dealing with internal control systems are reviewed by the Audit Committee and appropriate actions are taken, wherever necessary.

OPPORTUNITIES AND THREATS

Opportunities

Digital India Program by the Government of India and focused efforts towards digital initiatives by various enterprises have spawned new opportunities not only for large enterprises but even for small and medium businesses. Since the backbone for digital initiatives resides on the ICT infrastructure, this gives a significant edge to the telecom companies to offer various products and solutions.

The advanced spectrum offering in terms of 3G & 4G bandwidths has enabled seamless communication which has further enabled multiple devices communicating with each other popularly referred to as “Internet Of Things”. With the steady increase in the higher bandwidths, IOT will soon be a reality in the electronic appliances and the automobile markets.

The increase in data volumes and the availability of new applications and services coupled with the increasing penetration of smart phones, is expected to be the key growth enabler in the near future.

Threats

An unstable regulatory and economic environment could be detrimental for realizing the telecom sector’s growth potential. Absence of consistency in policies and a level playing field for all operators may hamper the sustenance and growth across the industry.

Disruptive product and pricing strategies by operators with deep pockets may lead to tremendous financial strain in the short to medium term.

Legacy voice and data network infrastructure may not be comparable with competition’s network infrastructure thereby significantly impacting the product offerings. With all operators rolling out the IP networks to carry both voice and data, the capacity available in the legacy network may not be able to handle the burgeoning voice and data traffic of the customers.

HUMAN RESOURCES (“HR”)

The Company continued its approach of centralizing HR Operations and Services to enhance the operational / cost efficiencies and strengthening processes & compliances. All the audits, including Statutory & IMS as well as Financial Controls checks were completed successfully, without any observation / NC. Engaging people at workplace remained a priority for HR in Q4.

The Company had a total of 646 employees on its rolls as on March 31, 2018.

QUALITY AND PROCESSES

TTL adopted eTOM framework as a benchmark to improve the maturity of our existing processes. This exercise was spread across three phases and included process universe identification, process documentation & process deployment. A comprehensive process template was developed to capture all pertinent details of a process with focus on enhancing operational efficiency. Process review mechanism is built into the template and the repository is standardized and made accessible across the Company.

The Company closed over 19 projects using the FITT (Framework for Improvement in Tata Teleservices) framework, a tool set developed in-house. Simplification of enterprise business processes for quantum improvement in business metrics was one of the key focus areas. Benchmarking and adoption of best practices, from within and outside the industry have been institutionalized as part of FITT framework.

This year external benchmarking approach was fine tuned in order to make it more structured and to ensure reduced timelines for completion of the study. The approach was applied to a business pain area where the processes to be benchmarked were finalized, target companies for benchmarking were identified within and outside the industry, questionnaire was developed and best practices for adoption were identified in the areas of people, process, and technology for process owners to take action quickly. This year Excellence Webinars @TTL series were introduced, with an objective to make quality tools easily accessible across all levels and locations. The journey on Certification based Competency program on Business Excellence (“BE”) continued this year also. The BE competency framework covers all bands of employees from an Executive to Sr. Vice Presidents, with programs defined for each band. The objective is to build an empowered workforce, with the right competencies, tools and techniques to continuously improve their work and business processes in a structured manner. BE competency programs will ensure a positive impact on critical KPIs relating to customer, profitability or growth and also make structured improvement and process management a way of working, thereby bringing the ability to understand, design and manage the interconnected ‘systems perspective’ in the middle and senior leadership roles. Operational excellence programs for Junior and middle management are ‘QUICK’ certification and ‘QUICK PLUS’ certification; Business excellence programs for Senior management relating to TBEM (Tata Business Excellence Model) form a part of the Competency program.

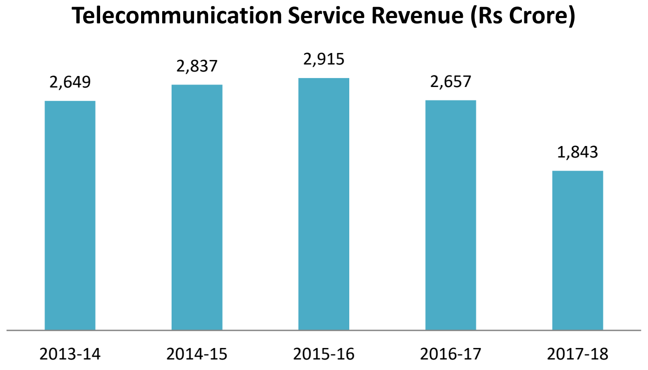
The Company was adjudged one of the Finalists along with Reliance Jio, Indus Towers, Primal health Care and Max Life Insurance in Quality Fables Competition organized by Qimpro in November 2017 under “Adaption to Technology” theme.

KEY FINANCIAL INFORMATION & OPERATIONAL PERFORMANCE

Revenue from Telecommunications service

As on March 31, 2018, the Company had a total wireless subscriber base of 6.1 Million as compared to previous year level of 7.9 Million. There was a reduction in subscriber base of CDMA technology by about 48% while the subscriber base for GSM reported 29% decline.

Subscriber churn coupled with reduced tariffs, as a measure to face the competition, the operating revenue reported a fall of 31% during the year. Service revenue for the year ended March 31, 2018 decreased to Rs. 1,843 Crores as against Rs. 2,657 Crores in the previous year. This had an adverse impact on the Company's financials as well.



The Company's wireless operation saw an unprecedented Tariff aggression since the entry of a new 4G operator in mid FY17, the telecom sector has witnessed continuous and intense price wars leading to an overall decline in market revenue in FY18. This price aggression by all the players to retain their customers and maintain their market share has significantly impacted the customer base and tariffs of the smaller players like TTML and consequently their revenues.

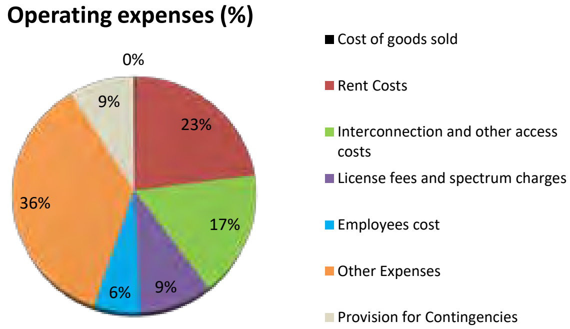
The Company's wireline operations contributed ~52% of revenue (up from ~36% in FY17), with its robust infrastructure and access fiber to serve the connectivity needs of all businesses acting as hedge against hyper competition in wireless. TTML's wide range of wireline data products acts as 'One Stop Shop' for ICT needs of customers and caters to the connectivity needs of all businesses. Many of TTML's products are industry firsts and have received awards and accolades for innovation besides coverage, services etc. from leading industry forums.

Other Income

Other income during the year stood at Rs. 61 Crores (previous year Rs. 31 Crores) which included income from rendering of services to the tune of Rs. 25 Crores (previous year Rs. 45 Crores).

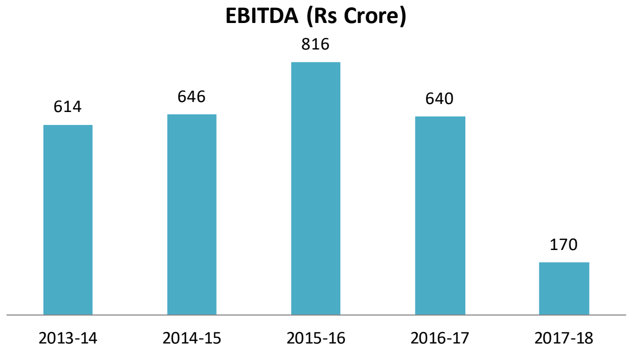
Operating Expenses

Operating expenses including provision for contingencies for the year were recorded at Rs. 1,734 Crores as against Rs. 2,049 Crores in the previous year. The major components of the total operating expenses are as follows –



Earnings Before Interest, Tax, Depreciation and Amortization ("EBITDA")

The focus during the last few years for the Company has been on optimizing its operations and increasing the asset utilizations. However, in response to the heavy disruption in the market due to progressively low priced offerings, the Company rolled out plans with aggressive tariffs during the year. Consequently, the Company's EBITDA reported a decline of 73.4% and reduced to Rs. 170 Crores as against Rs. 640 Crores in the previous year. Industry peers too are witnessing similar trends.



Net Loss

The declining revenues continue to impact the profitability of the Company. The Company's loss before exceptional items was Rs. 1,900 Crores as compared to last year level of Rs. 1,398 Crores. The Company reported a net loss of Rs. 9,842 Crores during the year after taking a provision of Rs. 7,942 Crores towards impairment loss on CMB assets and restructuring costs.

Balance Sheet

The Shareholders' Funds was Rs. 15,159 Crores (Negative) as at March 31, 2018 against Rs. 5,909 Crores (Negative) as at March 31, 2017.

Total borrowing for the Company (including long term borrowing, short term borrowing, current maturities of long term borrowing and long term debt payable on demand, acceptance, payables under usance letter of credit, debt components of ICDs and deferred spectrum liability including interest) was Rs. 14,599 (excluding liability component of RPS) Crores as compared to Rs. 14,606 Crores in the previous year.

The Net Block (including tangible as well as intangible assets) as at March 31, 2018 decreased to Rs. 847 Crores as compared to Rs. 7,460 Crores in the previous year primarily from impairment registered for spectrum. The Company has assets under development and Capital Work in Progress of Rs. 27 Crores.

OUTLOOK

The Company is in the process of transferring by way of demerger its consumer mobile business to Bharti Airtel Limited. On October 12, 2017 the Company announced its plans to merge its consumer mobility business with Bharti Airtel Limited. This transfer will entail a transfer of customers and assets of the Company's consumer mobility business to Bharti Airtel limited.

The demerger of the consumer business by the Company to Bharti Airtel Limited has been approved by the Competition Commission of India. Further, the Board of TTML approved the Scheme of demerger of consumer mobility business into Bharti Airtel Limited on December 19, 2017 and subsequently the Scheme of demerger was filed with the Stock Exchanges i.e., BSE Limited ("BSE") and the National Stock Exchange of India Limited ("NSE"). BSE and NSE vide their respective observation letters conveyed their no adverse observations/no objection to the Scheme. Thereafter, the Scheme of demerger has been filed with the National Company Law Tribunal and is in the process of obtaining various approvals including creditors, shareholders, Department of Telecommunications, etc.

The aforementioned demerger of the consumer mobile business of the Company is subject to the risks and concerns related to timely closure of the transaction. The current regulatory and legal regime for such demergers mandates prior approval from various regulatory authorities and stakeholders. Timely receipt of these approvals is essential to completing the transfer of its consumer mobile business to Bharti Airtel Limited.

The enterprise segment of the telecom business is projected to witness growth in the years to come on the basis of:

1. Wide Optical fiber network of ~132,000 kms (TTSL+TTML)

2. Strong brand presence across customers in this business with deep customer relationships.

3. Wide range of customized solutions enabling to service as a "A One Stop Shop" for meeting needs of enterprise customers.

4. With changing technology and increasing competition, sustaining the growth without substantial incremental investments may be challenging.

The Company is also exploring various options that are available to it pertaining to its enterprise, retail wireline and broadband business.

The expectations and risks stated in this report are in the opinion of the management and may not necessarily fructify.