

# Reliance Communications

## Subsea cable business

June 2012



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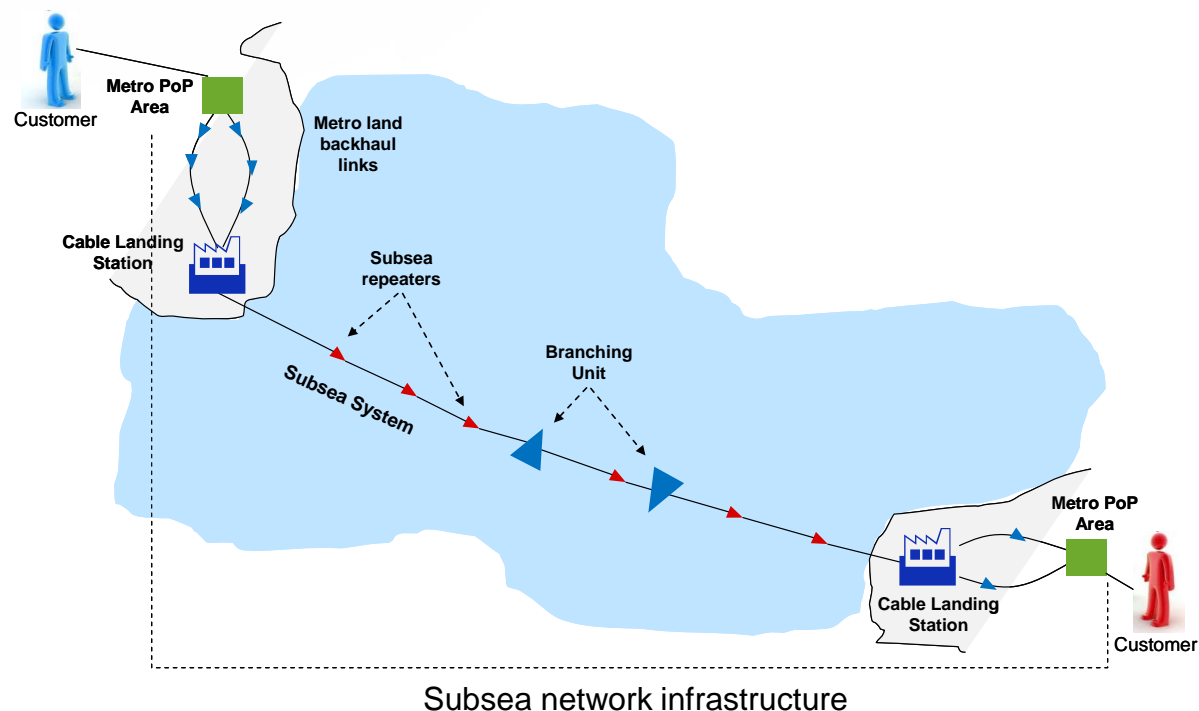
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# Subsea cable business

- **Subsea cable business is similar to a leasing business**
  - Three dimensions: connectivity, bandwidth and contract length
  - Point to point prepaid leases typically of 10-15 years, called IRU;
  - Point to point leases, typically contracted for 1-3 years, called IPLC;
  - Point to multi-point connections to access the internet, called IP (Internet Protocol), typically contracted for 1 year



# Business highlights



1 Presence in key global markets with strong regional connectivity

2 High entry barriers

3 Strong relationships with a diverse customer base

4 Significant spare capacity and remaining useful life

5 Favourable industry dynamics

6 Sound financial position

# Overview of subsea cable network



Global business, with a presence in high growth emerging and developed markets covering US, Europe, Middle East and Asia, including China and India

(a) CLS = Cable landing station, IP / Tx PoP = IP points of presence



## Overview of subsea cable business



- Subsea cable assets spanning over 68,000 Route Kilometers
- Landing at 46 locations in 26 countries
- Metropolitan networks in 45 cities across 25 countries
- Over 85,000 sq. ft. of space for data centres and telecommunications facilities
- 403 customers including ISPs, content providers, mobile and integrated telecom operators
- 326 employees including 68 sales and marketing employees across 13 regional offices

**Approximately 70% of customers have been using our services for more than 3 years**

# Our subsea cable network has a presence in 6 out of 8 global data traffic routes



Cables	Routes					
	Trans-Atlantic	Intra-Asia	Middle East-West	Middle East-East	India-West	India-East
FA-1	✓					
FEA		✓	✓	✓	✓	✓
FNAL		✓				
FALCON			✓		✓	
HAWK			✓		✓	

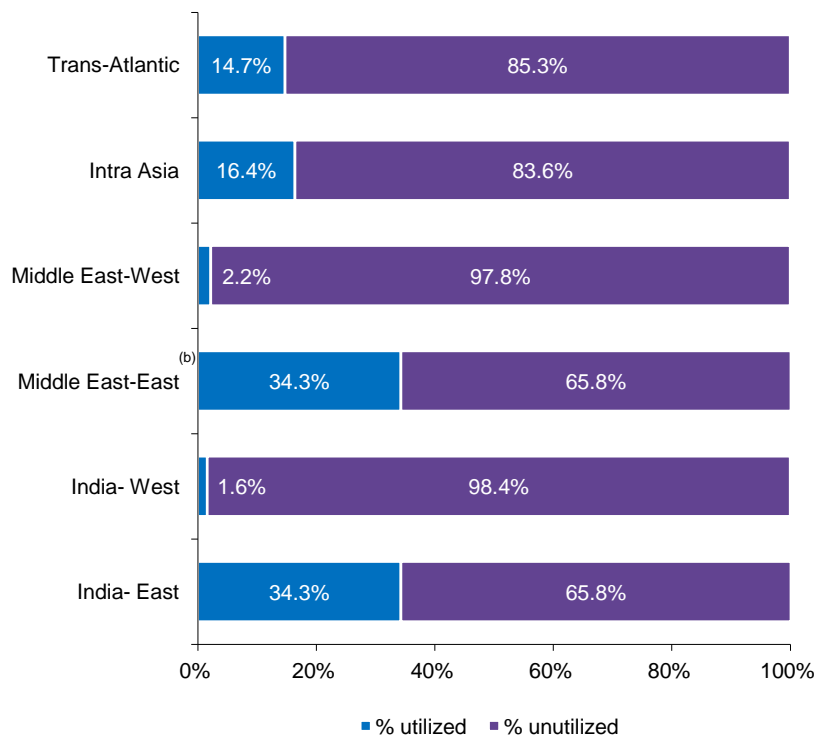
**These routes collectively accounted for 63% of the global data demand as measured by lit capacity for the year ended Dec-11**

Source: TeleGeography

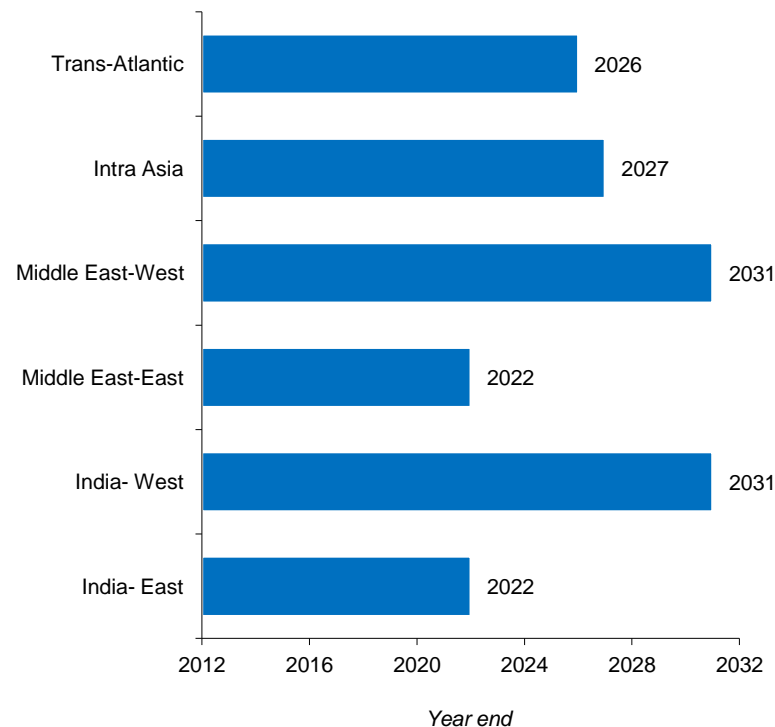
# Our subsea cable network has significant available capacity



## Substantial capacity available for sale (Mar 12)



## Significant useful life (year end)<sup>(a)</sup>



**10% of design capacity is utilized**

(a) Based on subsea cable with longest useful life operating on respective routes, excluding HAWK

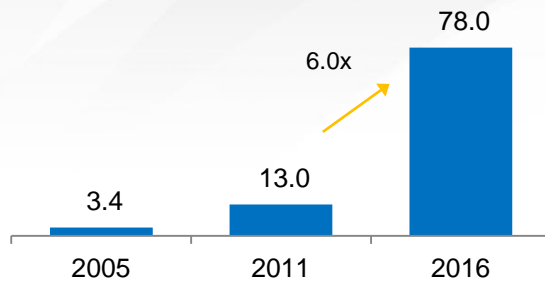
(b) Middle East-East route capacity is used by the same customer on the India-East route and counted only once in the total utilized lit capacity



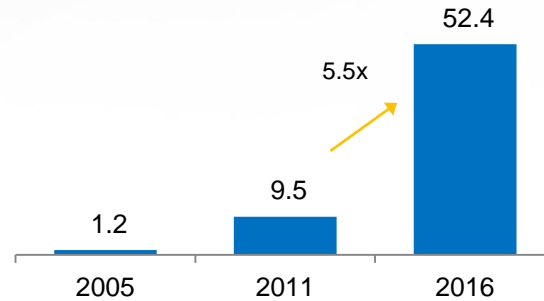
# Increasing demand for capacity



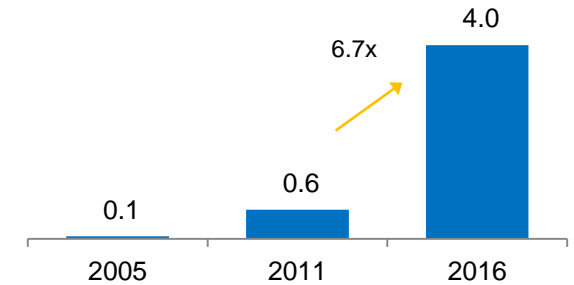
Trans-Atlantic (Tbps)



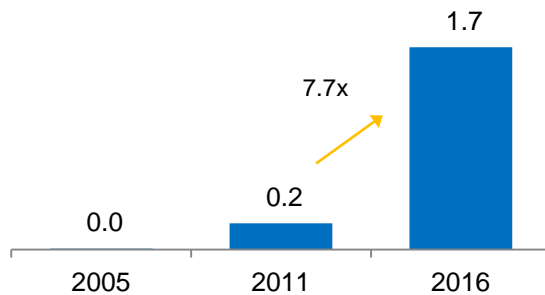
Intra-Asia (Tbps)



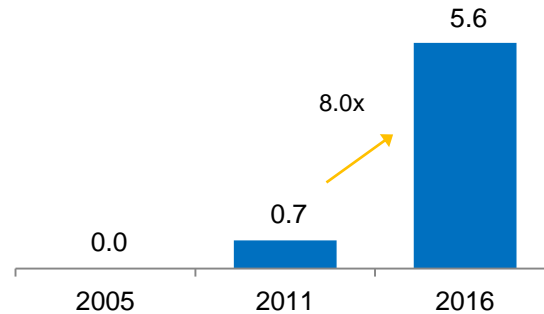
Middle East-West (Tbps)



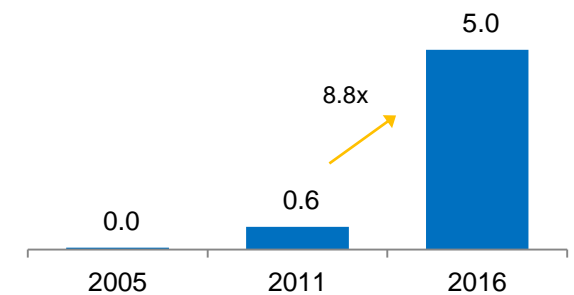
Middle East-East (Tbps)



India-West (Tbps)



India-East (Tbps)



Rapidly increasing number of devices, growing internet user base, faster broadband speeds, cloud computing and more video driving demand

Source: TeleGeography

# Competitive dynamics: differing motivations of key competitors



Cable ownership and indebtedness levels		Key competing assets			
		Route	Consortium	Private	In construction / Planning
<b>Consortium subsea cable owners</b>	<ul style="list-style-type: none"> <li>Typically two types of consortium members; domestic focused operators and regional/global players</li> <li>Domestic focused operators reserve capacity for serving home markets and do not sell capacity in the open market</li> <li>Some regional/global players sell capacity in the open market</li> </ul>	Trans-Atlantic (FA-1 and 7 other systems)	TAT-14, Columbus III	AC-1 & AC-2, Apollo, Hibernia Atlantic, Tata-TGN Atlantic	Hibernia Express
<b>Private subsea cables, acquired in early 2000</b>	<ul style="list-style-type: none"> <li>Purchased at fractions of construction costs</li> <li>Harvesting cash, upgrade their capacities only when needed</li> <li>Some have debt service obligations</li> </ul>	Intra-Asia (FEA, FNAL and 5 other systems)	SEA-ME-WE 3, APCN-2	Reach NAL, EAC-C2C (Pacnet), Tata-TGN Intra Asia	ASE, SJC and APG
<b>New private subsea cables</b>	<ul style="list-style-type: none"> <li>Primary consideration is recovering investment cost</li> <li>Some have debt service obligations</li> </ul>	Middle East – East and West (FEA, FALCON, HAWK and 5 other systems)	SEA-ME-WE 3, SEA-MEWE 4, IMEWE, EIG	TGN-Eurasia	GBI, TGN-Gulf
		India – East and West (FEA, FALCON, HAWK and 2–4 other systems)	SEA-ME-WE 3, SEA-MEWE 4, IMEWE, EIG	Tata Indicom-TGN Eurasia (India West), i2i (India East)	GBI

Each route has different key players and different demand and price dynamics

Source: Company's data, TeleGeography

# Forecast : capacity demand growth to exceed price decline



## TeleGeography forecasts

Global data traffic routes	Forecast demand growth (2011-2016 CAGR) <sup>(a)</sup>	Historical price decline <sup>(b)</sup>	Forecast price decline (2011-2016 CAGR) <sup>(b)</sup>
Trans – Atlantic <sup>(c)</sup>	43%	(12)%	(17)%
Intra – Asia <sup>(c)</sup>	41%	(20)%	(20)%
Middle East – West <sup>(d)</sup>	46%	(22)%	(26)%
Middle East – East <sup>(d)</sup>	50%	(22)%	(26)%
India – West <sup>(e)</sup>	52%	(21)%	(20)%
India – East <sup>(e)</sup>	54%	(21)%	(22)%

**Growth in demand is forecast to offset the decline in prices on all routes**

(a) Change in cumulative purchased capacity

(b) Change in median monthly lease prices for single, unprotected 10 Gbps wavelengths which exclude installation fees and local access

(c) Historical price decline CAGR between 2005-2011

(d) Historical price decline CAGR between 2007-2011

(e) Historical price decline CAGR between 2008-2011

Source: TeleGeography

## Financial performance for fiscal year ending Mar-12



- Billed Income of US\$330m
- Stable operating cost structure at US\$153m
- Billed EBITDA of US\$178m resulting in Billed EBITDA margin of 54%
- Capex of US\$70m which included payment of new landing station and terrestrial backhaul

- ✓ US Dollar denominated revenue
- ✓ Zero Debt
- ✓ Low marginal tax rate

**Distributable free cash flow of US\$116m**

## Significant capital expenditure completed



- Design capacity increased to 46.6 Tbps by using 40G technology
- Added new landing stations and improved existing terrestrial networks in Asia, Middle East and Continental Europe
- Capital expenditure for Mar-10 and Mar-11 was US\$105m and US\$191m, respectively
- Capital expenditure for Mar-12 reduced significantly to US\$70m
- Capital expenditure expected to be lower in the forecasted period
  - Forecast capital expenditure for Mar-13 and Mar-14 are US\$82m<sup>(a)</sup> and US\$46m, respectively

**Future capital expenditure expected to be lower than average historical period**

(a) Of which US\$38m has been agreed to be paid by Reliance Globalcom B.V.



# Forecast: key financials



## Outcome of key assumptions

	Mar-13E	Mar-14E
<u>Utilized lit capacity growth</u>		
IRU	22.7%	25.1%
IPLC	24.4%	37.4%
IP	26.9%	40.9%
<u>Price decline</u>		
IRU (incremental)	(20.5%)	(21.7%)
IPLC	(23.7%)	(21.1%)
IP	(19.0%)	(25.6%)

**Demand growth less than TeleGeography  
Price decline more than TeleGeography**

## Summary financials (US\$m)

	Mar-13E	Mar-14E
Billed revenue	352.7	370.0
Billed EBITDA	196.1	205.0
Distributable free cash flow	153.1	154.6

**Stable distributable free cash flow**



# Design and installed capacity by route



Gbps	Mar-10	Mar-11	Mar-12
<b>Design capacity<sup>(a)</sup></b>			
Trans – Atlantic	18,720	18,720	18,720
Intra – Asia	10,120	10,120	10,120
Middle East – West	9,800	9,800	9,800
Middle East – East	160	160	160
India – West	9,560	9,560	9,560
India – East	160	160	160
<b>Total</b>	<b>48,520</b>	<b>48,520</b>	<b>48,520</b>
<b>Installed capacity<sup>(b)</sup></b>			
Trans – Atlantic	2,390	4,750	4,750
Intra – Asia	3,770	3,770	6,670
Middle East – West	1,925	3,000	5,100
Middle East – East	55	55	80
India – West	1,440	1,440	2,700
India – East	55	100	140
<b>Total</b>	<b>9,635</b>	<b>13,115</b>	<b>19,440</b>

(a) Design capacity at 40G is the capacity of a cable between its start and end points if it were upgraded to 40G

(b) Installed capacity is the maximum capacity available between the start and end points of the cable

# Utilized lit capacity by route



Gbps	Mar-10	Mar-11	Mar-12
<b>IRU</b>			
Trans – Atlantic	586	686	876
Intra – Asia	1,116	1,139	1,269
Middle East – West	16	30	120
Middle East – East	–	–	–
India – West	28	28	28
India – East	–	–	–
<b>Total</b>	<b>1,746</b>	<b>1,882</b>	<b>2,293</b>
<b>IPLC</b>			
Trans – Atlantic	782	963	1,641
Intra – Asia	280	286	294
Middle East – West	53	75	75
Middle East – East <sup>(a)</sup>	1	3	5
India – West	39	41	27
India – East	1	3	5
<b>Total<sup>(a)</sup></b>	<b>1,154</b>	<b>1,367</b>	<b>2,041</b>
<b>IP</b>			
Trans – Atlantic	152	191	242
Intra – Asia	64	88	96
Middle East – West	12	14	17
Middle East – East <sup>(a)</sup>	50	50	50
India – West	30	41	95
India – East	50	50	50
<b>Total<sup>(a)</sup></b>	<b>308</b>	<b>384</b>	<b>500</b>
<b>Total utilized lit capacity<sup>(a)</sup></b>	<b>3,208</b>	<b>3,633</b>	<b>4,835</b>

(a) Middle East-East route capacity is used by the same customer on the India-East route and counted only once in the total utilized lit capacity



# Appendix II

Summary financials



# Summary P&L



Summary P&L (US\$m) <sup>(a)(b)</sup>			
	Mar-10	Mar-11	Mar-12
IFRS income <sup>(c)</sup>	357.2	317.2	325.1
IFRS EBITDA <sup>(d)</sup>	191.8	164.2	172.3
Net profit / (loss)	114.2	63.7	78.0

(a) Based on IFRS accounting

(b) The Subsea Telecommunications Network Business evaluates the performance as one segment i.e. Subsea Telecommunication Network Business. Similarly the billing and other information is for the network assets across the globe and not divided into geographical locations, therefore it is impracticable to disclose revenue and assets by geographical locations

(c) Calculated as service income plus other income

(d) Defined as "earnings before interest, tax, depreciation, and amortization". Calculated as operating profit less loss on foreign currency exchange differences (net), plus depreciation and amortization

# Billed revenue and EBITDA



## Billed revenue and EBITDA (US\$m)<sup>(a)</sup>

	Mar-10	Mar-11	Mar-12
IRU (gross)	61.2	30.0	91.0
IPLC (gross)	111.2	98.5	70.8
IP (gross)	70.2	76.7	115.6
O&M (gross)	59.0	59.5	58.9
Others, net of credit notes	18.2	(13.0)	(6.1)
<b>Total billed revenue<sup>(b)</sup></b>	<b>319.9</b>	<b>251.8</b>	<b>330.3</b>
<b>Billed EBITDA<sup>(c)</sup></b>	<b>154.5</b>	<b>98.8</b>	<b>177.5</b>

(a) The Subsea Telecommunications Network Business evaluates the performance as one segment i.e. Subsea Telecommunication Network Business. Similarly the billing and other information is for the network assets across the globe and not divided into geographical locations, therefore it is impracticable to disclose revenue and assets by geographical locations

(b) Calculated as the aggregate amount of all bills raised during the year, net of any credit notes issued to customers

(c) IFRS EBITDA less IFRS Income, plus Billed Income

# Distributable free cash flow



## Distributable free cash flow (US\$m)

	Mar-10	Mar-11	Mar-12	Mar-13E	Mar-14E
<b>Billed EBITDA</b>	<b>154.5</b>	<b>98.8</b>	<b>177.5</b>	<b>196.1</b>	<b>205.0</b>
Share-based payment	(0.2)	(1.1)	(0.2)		
Other income	0.2	1.6	2.9		
Decrease / (Increase) in trade and other receivables	70.7	(52.6)	17.7		
Decrease / (Increase) in other assets	2.1	4.1	2.8		
Increase / (Decrease) in trade and other payables	0.1	34.1	13.3		
Increase / (Decrease) in other liabilities	(0.8)	(0.0)	(0.3)		
Transfer to advance from customer	(3.2)	–	(3.9)		
Transfer to other liability	–	–	(10.0)		
Movement in provision for credit notes	13.4	2.0	(0.0)		
Movement in accrued income	2.8	(1.3)	(2.8)		
<b>Net cash generated from operating activities before income tax</b>	<b>239.4</b>	<b>85.5</b>	<b>197.0</b>		
Income tax (paid) / received	(0.9)	0.2	(2.0)		
Interest paid	(1.6)	(0.8)	(0.7)		
<b>Net cash generated from operating activities</b>	<b>236.9</b>	<b>84.9</b>	<b>194.3</b>	<b>169.7</b>	<b>201.8</b>
<b>Distributable free cash flow</b>	<b>125.6</b>	<b>(92.9)</b>	<b>116.3</b>	<b>153.1</b>	<b>154.6</b>



# Market share of 18.8% of utilised lit capacity across the six routes



**Market share of lit capacity across 6 routes (Gbps)<sup>(a)</sup>**

	Utilised lit capacity of the market	Utilised lit capacity of the subsea cable business	<i>Market share</i>
Trans-Atlantic	13,036	2,531	19.4%
Intra Asia	9,493	1,730	18.2%
Middle East-West	601	211	35.1%
Middle East-East <sup>(b)</sup>	218	31	14.2%
India-West	700	134	19.1%
India-East	567	31	5.5%
<b>Total<sup>(b)</sup></b>	<b>24,615</b>	<b>4,637</b>	<b>18.8%</b>

(a) As of December 2011

(b) Middle East-East route capacity is used by the same customers on the India-East route and counted only once in the total utilised lit capacity

Source: Company's data, TeleGeography