B S R & Co. LLP

Transfer Pricing Memorandum

Proposed dealings between Bharti Hexacom Limited and
Bharti Airtel Limited

Financial Year 2026-27

Contents

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Abbreviations and acronyms

Abbreviations and acronyms	Full name
ALP	Arm's Length Price
A2P	Application to Person
B S R / Firm / we / us	B S R & Co. LLP
Company / Bharti Hexacom	Bharti Hexacom Limited
Bharti Airtel	Bharti Airtel Limited
B2C	Business to Customer
BTS	Base Transceiver Station
CPM	Cost Plus Method
CUP	Comparable Uncontrolled Price
DEMPE	Development, Enhancement, Maintenance, Protection and Exploitation
GPRS	General Packet Radio Service
ISD	International Subscriber Dialing
IBR	Inter Bharti Roaming
ILD	International Long Distance
IPTV	Internet Protocol Television
MSC	Mobile Switching Centre
NLD	National Long Distance
OECD	Organization for Economic Cooperation and Development
OECD Guidelines	TP Guidelines for Multinational Enterprises and Tax Administrations published by the Organization for Economic Cooperation and Development in January 2022
PSM	Profit Split Method
RPM	Resale Price Method
RPT	Related Party Transaction
STD	Subscriber Trunk Dialing
SMS	Short Message Service
TNMM	Transactional Net Margin Method
TRAI	Telecom Regulatory Authority of India
TNG	Transport Network Group

1 Scope of work

Bharti Hexacom Limited ("Bharti Hexacom" or "Company") has approached B S R & Co. LLP ("we" or "us" or "Firm") to undertake the following scope of work:

- Analysis of the nature of the related party transactions ("RPT") identified by the management of the Company;
- Analysis of the back-up documentation and information shared with us by the management of the Company; and
- Conducting an economic analysis, which shall include selection of the most appropriate transfer pricing method, and determination of arm's length price for the respective RPT.

Please note that the above scope covers our analysis in respect of the RPT proposed to be undertaken during Financial Year ("FY") 2026-27. Further, our responsibility is limited to documenting the approach and rationale for determination of arm's length price.

2 List of transactions

The transactions identified by the management of the Company and proposed to be undertaken with Bharti Airtel Limited ("Bharti Airtel") are listed below:

i. Core telecom services

ii. Transfer of inventory and fixed assets

iii. Reimbursement of expenses and cross recharges

iv. Cost allocations

v. Payment of royalty

3 Information relied upon

For the purpose of this memorandum, we have placed reliance on the requisite information/documents, along with confirmations provided to us by the management of the Company with respect to nature and commercials relating to RPTs.

Please note that our responsibility is limited to documenting the approach and rationale for determination of arm's length price.

4 Overview of transactions

4.1 Core telecom services

4.1.1 Carriage charges National Long Distance ("NLD")

The proposed transaction to be undertaken between Bharti Hexacom and Bharti Airtel is in the nature of receipt/payment of carriage charges.

In case of Subscriber Trunk Dialing ("STD"), a call is carried from home circle to terminating circle within India, through the use of NLD. The home circle was required to pay termination charges to terminating circle. In case of carrying calls from one circle to another (within or outside India), a carriage charge is levied.

4.1.2 Carriage charges International Long Distance ("ILD")

The proposed transaction to be undertaken between Bharti Hexacom and Bharti Airtel is in the nature of payment/ receipt of carriage charges ILD.

In case of an outgoing International Subscriber Dialing ("ISD"), a call is carried from India to international destination, through the use of ILD. In such case, call is originating from India and terminating outside India and termination charge is paid by ILD.

4.1.3 Carriage charges for SMS service (NLD)

The proposed transaction to be undertaken between Bharti Hexacom and Bharti Airtel is in the nature of receipt/payment of carriage charges for SMS services. An SMS is carried from home circle to visiting circle within India through the use of NLD. In this regard, the home circle is required to pay the charges to the visiting circle for use of NLD.

4.1.4 Inter Bharti Roaming ("IBR") (Voice)

The proposed transaction pertains to an IBR arrangement between Bharti Hexacom / Bharti Airtel. To understand the nature of the transaction, it is necessary to understand the following components:

- **Roaming network:** this refers to ability of a customer to automatically make and receive voice calls, send and receive data, or access other services, including home data services, when travelling outside the geographical coverage area of the home network, by means of using a visited network.
    - **Incoming call services:** this refers to situation where a customer of home circle enters the region of visiting circle and receives a call in the visiting circle. The service performed by visiting circle in such call is referred to as incoming call service.
    - **Outgoing call services:** this refers to situation where a customer makes a call from the visiting circle either within the visiting circle or outside the region of visiting circle. The service performed by visiting circle in such call is referred to as outgoing call service. This can be categorized as follows:
        - **Local outgoing call:** when a customer in visiting makes a call within the visiting circle
        - **STD outgoing call:** when a customer in visiting circle makes a call outside the visiting circle within India
        - **International Subscriber Dialing ("ISD") outgoing call:** when a customer in visiting circle makes a call outside the visiting circle outside India

In light of the above, in this section, we have explained the following kind of transactions:

Outgoing calls while in roaming network

- Local call made by a customer while roaming in visiting circle's network
- STD call made by a customer while roaming in visiting circle's network
- International Subscriber Dialling call made by a customer while roaming in visiting circle's network

Incoming calls while in roaming network

- Incoming call received by a customer while roaming in visiting circle's network.

➢ Description of network flow in case of IBR arrangement

In case of IBR, an Bharti Airtel customer travels outside the home circle and roams in the visiting circle. While roaming in visiting circle, it uses the network flow in different ways as depicted below:

Outgoing local call

- In case of local call, the customer first connects with Base Transceiver Station ("BTS") in the roaming circle of Bharti Hexacom and makes an outgoing local call.
- To connect this call, BTS hands over the call to the Mobile Switching Centre ("MSC") of Bharti Airtel through which it makes a call within the visiting circle.
- The call is terminated at the destination circle which is within the vising circle.
- When the call is terminated in the visiting circle's network, it charges a termination charge from originating roaming circle which is as per Telecom Regulatory Authority of India ("TRAI") Regulations[1].

Outgoing STD / ISD call

- While the Bharti Airtel customer is roaming in visiting circle, as mentioned above, it uses Bharti Airtel BTS, through which the call is connected with the Bharti Airtel MSC.

With the use of Bharti Airtel MSC, the call travels outside the visiting circle and is terminated at the destination circle.

- Further to connect the call outside the visiting circle's network, call is routed from visiting circle with the help of NLD / ILD carriers for which NLD / ILD levies on the originating roaming circle carriage and termination charges.

Incoming call

- While roaming in visiting circle, an Bharti Airtel customer receives an incoming call.

[1] The Telecommunication Interconnection Usage Charges Regulations, 2003, as amended from time-to-time

- At the initiation, it connects with home circle Bharti Airtel MSC, which hands over the call to Transport Network Group ("TNG") of Bharti Airtel which takes the call upto the vising circle.
- TNG remains responsible to hand over the call to the Bharti Airtel MSC in roaming circle, which in turn hands over the call to Bharti Airtel BTS.

Bharti Airtel BTS remains responsible to connect the call with the Bharti Airtel customer.

4.1.5 IBR arrangement – Data access charges

The proposed transaction is in nature of IBR entered between Bharti Hexacom and Bharti Airtel.

In this case, an Bharti Airtel customer while roaming in visited area's network uses SMS and General Packet Radio Service ("GPRS") services of the other related party. GPRS refers to a packet oriented mobile data service on the 3G/4G/5G cellular communication system's global system for mobile communication.

4.1.6 Toll-free number

The proposed transaction is in nature of Toll-free number service between Bharti Hexacom and Bharti Airtel.

A Toll-free number is a standard 11-digit phone number, on which a user can make free calls for getting the information and resolving the queries related to the services they are receiving or for any other purpose. Under the proposed arrangement, Bharti Hexacom will avail the "Toll-free number" services from Bharti Airtel, wherein a user can make free calls to interact with the operator.

4.1.7 International toll-free services ("ITFS")

The proposed transaction relates to network services provided by Bharti Hexacom to Bharti Airtel in connection with International Toll-Free Services ("ITFS"). Bharti Airtel provides ITFS to its overseas customers, and Bharti Hexacom supports Bharti Airtel in facilitating these services. Under the proposed arrangement, Bharti Hexacom will provide network services to Bharti Airtel. A brief overview of the transaction is provided below for reference:

Product Description:

Bharti Airtel International Toll Free Service as the name suggests is a Free Phone service offered by Bharti Airtel Business, where a caller can make a call on a toll free number, free of cost and the subscriber of the service (called party) instead pays for all the cost associated with the call. Here, the call is routed to a foreign destination.

Call route

Call is originated within Bharti Airtel's B2C networks by dialing the assigned ITFS number. This would hit Bharti Airtel's IN Platform and undergo a number translation and call is then switched over to the bilateral capacity onto the international operator partner for termination overseas.

Based on the translated number, Bharti Airtel will carry the call to international operator partner who will further route it and terminate it to the desired destination.

Functionality

The calling to the toll-free numbers is from Bharti Hexacom (or Bharti Airtel Mobility). The carriage of this traffic from customer's device to the switch is done by the Bharti Hexacom (or Bharti Airtel Mobility).

4.1.8 Toll Free Data Services

The proposed transaction relates to network services provided by Bharti Hexacom to Bharti Airtel in connection with Toll-Free Data Services ("TFDS"). Bharti Airtel provides TFDS to certain customers, and Bharti Hexacom supports Bharti Airtel in facilitating these services.

Bharti Airtel has introduced toll-free data solution (white listed) where customers or subscribers would not bear data charges for browsing through their websites. In turn the corporates or clients of Bharti Airtel who own these websites would be charged for the usage. Any customer / subscriber in the Bharti Airtel's circle roaming in Bharti Hexacom's circle may use this service. Accordingly, Bharti Hexacom would be providing services to Bharti Airtel.

4.1.9 Signaling services to Bharti Hexacom

The proposed transaction is in nature of availing of signaling services by Bharti Hexacom from Bharti Airtel.

When an Bharti Airtel customer (home circle) roams in the visiting circle and connects to the local network for voice calling or data services, visiting circle requires detailed profile of the customer to provide the access to the network. Accordingly, visiting circle examines the register to identify the region where the customer belongs and approaches home circle for retrieving the customer profile. The home circle responds to the visiting circle's request with the location of the customer and other related details. Such customer profile is shared through a SMS for which the home circle operator charges visiting circle operator on message signaling unit ("MSU") basis.

Further, the customer details are not shared directly between Bharti Airtel and Bharti Hexacom. The customer profile packet is shared through a gateway which acts as interconnecting entity to deliver the same. Bharti Airtel had arrangement with third party vendor through which majority of customer profile packets are delivered. Such third party vendor acted as interconnecting entity between home circle operator i.e. Bharti Airtel and visiting circle operator.

Going forward, Bharti Airtel wishes to enter into agreement with Bharti Hexacom for sharing the customer profile. In such arrangement, a unit of Bharti Airtel will act as interconnecting entity for all such communications between Bharti Airtel and Bharti Hexacom. Bharti Airtel intends to enter into agreement with Bharti Hexacom at the rate similar to the rate that was being charged by third party from Bharti Airtel.

4.1.10 Termination charges

The proposed transaction to be undertaken between Bharti Hexacom and Bharti Airtel is in the nature of termination charges wherein, an SMS is carried and terminated from home circle to visiting circle.

4.1.11 Availing of bandwidth services

The proposed transaction is in nature of availing of bandwidth capacity entered between Bharti Hexacom and Bharti Airtel. In respect of subject transaction, Bharti Airtel has offered to provide bandwidth services to Bharti Hexacom.

The proposed region-wise rates are encapsulated in the later part of this report.

4.1.12 IPTV Services

The proposed transaction to be undertaken between Bharti Hexacom and Bharti Airtel with respect to IPTV operations.

Under the proposed arrangement, Bharti Airtel shall incur capital expenditure on the procurement of IPTV related assets to meet business requirements. These new assets will be jointly utilized by Bharti Hexacom and Bharti Airtel to provide services to end customer. Further, subsequent to the procurement, Bharti Airtel shall incur certain operating expenditure in relation to such assets, such as network expenses etc.

In relation to the above, Bharti Airtel will charge Bharti Hexacom for the costs[2] associated with the assets to the extent they are utilized by Bharti Hexacom, along with a markup. This allocation will be based on the revenue ratio generated by Bharti Hexacom and Bharti Airtel respectively from IPTV operations.

4.2 Transfer of inventory and fixed assets

The proposed transaction to be undertaken between Bharti Hexacom and Bharti Airtel is in the nature of transfer of inventory at its carrying value and fixed assets at its written down value.

4.3 Reimbursement of expenses and cross recharges

The proposed transactions to be undertaken between Bharti Hexacom and Bharti Airtel are in the nature of

- Reimbursement of expenses (paid or received); and
- Cross-recharges.

Reimbursement of expenses (paid or received):

Under the proposed arrangement, Bharti Hexacom and Bharti Airtel shall incur certain expenditure on behalf of each other for administrative convenience.

[2] Capital as well as revenue expenditure

Cross-recharges:

Bharti Airtel Group is one of the largest service providers in the country having mobile telecommunication services in all the 22 telecom circles of India.

Out of the total 22 telecom circles, Bharti Airtel has its operations in 20 telecom circles whereas Bharti Hexacom has its operations in the remaining 2 telecom circles i.e., Rajasthan and North-East Circles.

The customers of both the circles visit each other's geographies and do recharges without any restrictions. The above results in the flow of revenue in each other's circles; however, revenue can only be recognized in the circle to which the customer pertains. On the other hand, for the circle where recharge is sold to the distributer, a prepaid liability[3] is to be recognized.

Owing to above, cross recharges are undertaken between Bharti Airtel and Bharti Hexacom circles, wherein customers of Bharti Hexacom recharges in Bharti Airtel's circle and vice versa. In such a case, Bharti Airtel and Bharti Hexacom receives recharge proceeds on each other's behalf. Considering the above scenario, Bharti Airtel/Bharti Hexacom proposes to transfer the recharge proceeds from the circle where recharge is undertaken to the circle customer pertains between Bharti Airtel and Bharti Hexacom. Bharti Airtel and Bharti Hexacom shall transfer the entire proceeds from recharges including prepaid liability, GST liability, discount etc.

4.4 Cost Allocations

The proposed transactions are in the nature of cost allocation by Bharti Hexacom / Bharti Airtel to Bharti Airtel / Bharti Hexacom.

The allocations made by Bharti Hexacom / Bharti Airtel can be broadly classified into following categories:

- Employee, Manpower and other related cross charge;
- Common Selling and Distribution ("S&D") expenses incurred for products and services;
- Common network infrastructure ("NOC");
- Security deposit balance transfer related to Internet Protocol Television ("IPTV") or Fixed Wireless Access ("FWA"); and
- Any other expenses of similar nature.

I. Employee, Manpower and other related cost cross charge:

Brief: Bharti Hexacom / Bharti Airtel proposing to allocate certain expenses in the nature of administration and salary of personnel working for Bharti Airtel and Bharti Hexacom.

[3] Prepaid liability: For revenue recognition purposes, an equivalent amount of the revenue flow is recognized as a prepaid liability.

Allocation key: The above-mentioned costs related to the IPTV, FWA, and DTH segments are proposed to be allocated based on the revenue earned from the respective segments or other reasonable allocation key.

II. Cost allocation for the common S&D expenses:

Brief: Bharti Airtel has incurred certain common S&D expenses for products and services. Bharti Airtel shall allocate the said expenses amongst Bharti Airtel and Bharti Hexacom.

Allocation key: The above-mentioned costs are proposed to be allocated on the basis of a reasonable allocation key, such as gross addition /revenue/ product ratio, applicable based on the available data.

III. Cost allocation for the common network expenses:

Brief: Bharti Airtel will allocate certain expenses in the nature of network expenses used by Bharti Hexacom and Bharti Airtel.

Allocation key: The above-mentioned costs are proposed to be allocated on the basis of net revenue wherein common network costs are identified.

IV. Security deposit transfer:

Brief: Bharti Airtel will pay security deposit amount on behalf of common channel partners for Bharti Hexacom and Bharti Airtel.

Allocation key: The above-mentioned security deposit are proposed to be allocated on the basis of a reasonable allocation key, amount decided as security deposit by Bharti Hexacom and Bharti Airtel.

V. Any other expenses:

Brief: Bharti Hexacom / Bharti Airtel may incur certain common expenses for common products and services of similar nature offered by Bharti Hexacom and Bharti Airtel. Bharti Hexacom / Bharti Airtel shall allocate the said expenses to Bharti Airtel / Bharti Hexacom.

Allocation key: The above-mentioned cost shall be allocated on the basis of a reasonable allocation key, such as revenue/ product ratio.

4.5 Payment of royalty

The proposed transaction is in nature of payment of royalty by Bharti Hexacom to Bharti Airtel.

Bharti Airtel has licensed the right to use the trademark “Bharti Airtel” and other related marks (hereinafter “Bharti Airtel” trademark and other related marks are collectively referred to as “Bharti Airtel Trademarks”) to Bharti Hexacom. Considering Bharti Airtel Trademark is one of the most reputed trademarks in Indian Territory as it is operating since 1995, Bharti Airtel charges royalty for the use of Bharti Airtel trademark to Bharti Hexacom.

Ownership of an intangible can be of two kinds – “de-jure” i.e. “legal” ownership based on legal registration and like formalities or “economic” or “de-facto” i.e. ownership based on contribution towards or critical decision making in respect of an intangible's development. The decision making can relate to the quantum of expenditure, its direction, scope, nature and other such modalities pertaining to development of intangible. The locus of "legal" and "economic" ownership may often coincide, or it can even remain separate – a finding that needs to be made separately in each factual setting.

The following are the specific functions that should be examined in evaluating entitlement to intangible related returns:

(i) Legal registration; and

(ii) Functions leading to development, enhancement, maintenance, protection and exploitation of intangibles ("DEMPE").

In relation to the legal registration functions, we understand that Bharti Airtel, at its own cost, shall take all steps required to maintain registration for the Bharti Airtel Trademarks worldwide. Any new applications for trademarks that are derived from the existing Bharti Airtel Trademarks shall also be filed by Bharti Airtel.

Further, all functions in relation to design and control of marketing programs, management and control of budgets, control over strategic decisions regarding brand development programmes for Indian territory have been undertaken so far by Bharti Airtel. However, we understand that Bharti Hexacom has a marketing team on board, and in future Bharti Hexacom shall also undertake functions in relation to marketing functions in relation to their business. However, the marketing functions performed by Bharti Hexacom shall be within the overall guidance and framework for brand development policy of Bharti Airtel group.

Based on the above, it can be concluded that historically, in respect of development of Bharti Airtel trademark in Indian Territory, functions relating to legal registration as well DEMPE of intangible have been undertaken solely by Bharti Airtel. Thus, in relation to Indian market, both legal as well as economic ownership if the trademark belongs to Bharti Airtel. As Bharti Airtel is both the legal as well as economic owner, it should charge an arm's length full blown royalty for the Bharti Airtel trademark.

A snapshot of the intensity of functions proposed to be performed by Bharti Hexacom and Bharti Airtel have been captured in the table below:

S. No.	Functions	Undertaken by Bharti Hexacom	Undertaken by Bharti Airtel
1	Legal registration function	-	♦♦♦♦
2	Functions related to the defense of intangibles against infringement through legal action in the defined territory	-	♦♦♦♦
3	Control over all strategic decisions regarding marketing intangible / brand development programs in the defined territory	♦♦♦♦	♦♦♦
4	Design and control of marketing programmes in the defined territory	♦♦♦♦	♦♦
5	Management and control of marketing budgets for the defined territory	♦♦♦♦	♦♦

In consideration for the use of trademarks, Bharti Hexacom shall pay certain percentage of its gross revenue to Bharti Airtel.

5 Economic Analysis – Primary Approach

5.1 Aggregation of transactions

In order to assess, whether the transactions entered into by Bharti Hexacom are at arm's length, a transfer pricing method may be applied to each of the said transactions separately or to all such transactions as a single group of transactions. In the instant case, given the nature of transactions involved, all the transactions have been aggregated for the purposes of determining the ALP.

5.2 Selection of the tested party

The choice of the tested party should be consistent with the functional analysis of the transaction. As a general rule, the tested party is the one to which a transfer pricing method can be applied in the most reliable manner and for which the most reliable comparables can be found i.e. it will most often be the one that has the less complex functional analysis.

On the basis of the transaction discussed above for the transactions under analysis, Bharti Hexacom has been selected as the tested party since it is the least complex of the controlled taxpayers and its operating profits can be verified using reliable data and making the fewest and most accurate adjustments.

5.3 Most appropriate method ("MAM")

The Indian Transfer Pricing ("TP") Regulations provide no priority of methods. Rather, the selection of the pricing method to be used to test the arm's length character of a controlled transaction must be made under the "most appropriate method rule". The MAM is that method which, under the facts and circumstances of the transaction under review, provides the most reliable measure of an arm's length result.

In determining the reliability of a method, the two most important factors to be taken into account are (i) the degree of comparability between the controlled and uncontrolled transactions and (ii) the coverage and reliability of the available data. As per the Indian TP Regulations, other factors such as the nature and class of transactions, conditions prevailing in the markets, the extent and reliability of adjustments that can be made, and the extent and reliability of assumptions that may be required in applying the method, shall also be taken into account.

Because the selection of the MAM involves a test of relative merit, a method that may not be perfect is not rejected unless some other method can be shown to be more reliable or provide a better estimate of an arm's length result.

5.4 Selection of MAM

5.4.1 Comparable uncontrolled price ("CUP") method

CUP method compares the price charged for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.

Comparability under the CUP method is particularly dependent upon the similarity of products and contractual terms among other things. Differences in geographic markets may also influence the reliability of the comparison under this method, particularly if they are material but cannot be reliably ascertained. Adjustments are therefore necessary to reflect any differences that would affect the price.

In practice, there are two types of comparable uncontrolled transactions. The first, known as an "Internal Comparable", is a transaction between one of the parties to the controlled transaction and an unrelated third party. The second, known as an "External Comparable", is a transaction between two unrelated third parties. Generally, specific details regarding internal comparables are more readily available to the parties engaged in the controlled transaction than details regarding external comparables.

At an aggregate level, no internal or external data was available with the management of the Company that would satisfy the degree of similarity required to establish CUP. Accordingly, CUP method was not the MAM.

5.4.2 Resale price method ("RPM")

RPM evaluates the arm's length nature of a controlled transaction by reference to the gross profit margin realized in a comparable uncontrolled transaction. The RPM is ordinarily appropriate in cases involving the purchase and resale of tangible goods/services in which the buyer/reseller does not add substantial value to the goods by physically altering them or by using marketing intangibles.

Under the RPM, comparability is primarily dependent upon the similarity of the functions performed and the risk assumed by the controlled and uncontrolled distributors, and is less dependent on the similarity of the tangible goods bought and resold.

Bharti Hexacom is a service provider and not a distributor. Hence, RPM was not considered as the MAM for determining the arm's length nature for the transactions under analysis.

5.4.3 Cost plus method ("CPM")

CPM evaluates the arm's length nature of a controlled transaction by reference to the gross profit mark up (i.e., gross profit divided by direct and indirect costs) that is realized in comparable uncontrolled transactions. The CPM is ordinarily appropriate in two situations: i) the provision of services to a related party; and ii) the manufacture of tangible goods that are sold to a related party.

Under the CPM, comparability is primarily dependent upon the similarity of the functions performed and the risk assumed by the controlled and uncontrolled parties, and is less dependent on the similarity of the services provided or the goods produced.

The computation of gross profit mark-up can be affected by the particular accounting conventions used by an enterprise to classify direct/indirect cost of goods produced, which might vary widely among uncontrolled parties. Further CPM may be adversely affected by factors such as cost structures, business, management efficiency, lack of reliable external comparable data.

Though, CPM is sometimes appropriate in the case of services, it cannot be used in this analysis for the reasons stated herein and would have to be used with modifications thus falling within the definition of the TNMM. Hence, CPM was not considered as the MAM.

5.4.4 Profit split method ("PSM")

In general, PSM evaluates whether the allocation of the combined profit or loss attributable to one or more controlled transactions is arm's length by reference to the relative value of each controlled taxpayer's contribution to that combined profit or loss. The profit split methods typically are applied where each party to the transaction under evaluation makes unique and valuable contributions and/or the operations of the parties to the transaction are highly integrated and cannot be evaluated on a separate basis.

In the instant case, the transactions are not highly integrated and can be evaluated independently for Bharti Hexacom. Hence, PSM was not considered as the MAM in this case.

5.4.5 Transactional net margin method ("TNMM")

TNMM assesses the arm's length character of transfer prices in a controlled transaction by testing the profit results of one participant in the transaction. The TNMM examines the net profit margin relative to an appropriate base (e.g. costs, sales and assets) that a taxpayer realises from a controlled transaction (or transactions that are appropriate to aggregate).

Under the TNMM, comparable transactions need to be only broadly similar. Significant product diversity and some functional diversity between the controlled and uncontrolled parties are acceptable.

One strength of the TNMM is that net margins (e.g. return on assets, operating income to sales, and possibly other measures of net profit) are less affected by transactional differences than is the case with price, as used in the CUP Method. The profit level indicators ("PLIs") also may be more tolerant to some functional differences between the controlled and uncontrolled transactions than gross profit margins. Differences in the functions performed between enterprises are often reflected in variations in operating expenses. Consequently, enterprises may have a wide range of gross profit margins but still earn broadly similar levels of net profits.

Accordingly, TNMM has been considered as the MAM for benchmarking the transactions under analysis.

5.4.6 Other method

Any other method as provided under the Indian TP Regulations shall be any method that takes into account the price that has been charged or paid, or would have been charged or paid, for the same or similar uncontrolled transaction, with or between non-related parties, under similar circumstances considering all the relevant facts.

Under the Other Method the standards of comparability are flexible as compared to CUP method. Further, the other method gives consideration to the price that would have been charged or paid for same or similar transaction under similar circumstances. The other method does not necessitate an actual transaction but it recognizes an analysis which demonstrates independent behavior i.e. which would be agreed between two independent enterprises. Thus, the Other Method gives credence to the concept of hypothetical arm's length test.

In the present case, TNMM was considered to be the MAM. As a result, the Other Method was not considered the MAM.

5.5 Application of the MAM

After reviewing all of the transfer pricing methods discussed, we concluded that, given the fact and circumstances, TNMM provides the most reliable measure of an arm's length result for transactions of Bharti Hexacom.

5.6 Determination of the arm's length results

The search for comparables was undertaken to identify potential uncontrolled comparables, keeping in mind, that the company is involved in the provision of telecommunication services.

Based on a detailed analysis conducted in later section of this report, the percentile range of Net Profit Margin ("NPM") earned by independent comparable companies having similar functional profile comes out to **11.76% to 26.97%** with a median of **18.66%.**

In light of the above, the policy of Bharti Hexacom to earn NPM% within the aforementioned percentile range should satisfy the arm's length criteria.[4]

6 Corroborative Economic Analysis

As discussed in Section 5 above, while TNMM has been selected as the MAM to benchmark RPTs of Bharti Hexacom covered in this report, there are certain transactions in respect of which an alternate method could also be applied, having regard to the nature of such transactions and/ or the availability of relevant comparable data.

The details of such analyses are set out in the ensuing sections.

6.1 Core telecom services

6.1.1 Carriage charges (ILD) - Determination of arm's length results

For this analysis, the CUP Method, as stipulated under the Indian TP Regulations, was selected as an appropriate method.

As informed by the management of the Company, Bharti Hexacom shall provide the service of international calls through ILD services to Bharti Airtel and vice-a-versa on the prevailing competitive market price of each country.

Accordingly, the policy of Bharti Hexacom to charge/pay for the services in line with the prevailing competitive market price, should satisfy the arm's length standard.

6.1.2 Toll-free number

For this analysis, the CUP Method, as stipulated under the Indian TP Regulations, was selected as an appropriate method.

Based on the information received from the management of the Company, Bharti Airtel has provided similar services to third parties.

The analysis of the rate charged (paise/ minute) is summarized below, based on the detailed analysis provided in the later sections of this report.

[4] Bharti Hexacom has earned an NPM% of 24.74% during FY 2024-25 viz., the latest annual report available at the time of preparation of this memorandum.

Count	35th percentile	Median	Mean	65th percentile
8	52.00	69.50	71.13	90.00

Based on the third-party data, it is recommended that Bharti Hexacom should pay within range of **52 paise/ minute to 90 paise/ minute** to Bharti Airtel to satisfy the arm's length criteria.

6.1.3 Signaling services to Bharti Hexacom

For this analysis, the CUP Method, as stipulated under the Indian TP Regulations, was selected as an appropriate method.

Bharti Airtel has entered into arrangements with third parties for the provision of signaling services. Based on the comparable information provided by the management of the Company (refer later section of the report), the average price charged by Bharti Airtel to third parties is INR 0.002016.

In view of the above, it is recommended that Bharti Hexacom should pay a similar rate to Bharti Airtel for availing of signaling services to satisfy the arm's length criteria.

6.1.4 IPTV Services

For this analysis, the Other Method, as stipulated under the Indian TP Regulations, was selected as an appropriate method.

In order to determine the amount that would have been paid by Bharti Hexacom if it had been dealing with third parties, reliance has been placed on the arrangement of this transaction. With respect to the assets deployed by Bharti Airtel for common use, allocated[5] costs incurred in relation to such assets (including operating expenditure, such as network expenses) are proposed to be recovered by Bharti Airtel from Bharti Hexacom, along with reasonable markup.

Based on the analysis conducted in the later sections of this report, the percentile range of markup to be charged on allocated costs comes out to **7.42% to 18.05%** with a median of **9.21%**.

In view of the above, afore mentioned policy of recovery of allocated costs (pertaining to common infrastructure/assets based on an appropriate allocation mechanism), along with a markup within the aforementioned percentile range should satisfy the arm's length criteria.

6.1.5 Termination Charges

For this transaction, a corroborative analysis has been undertaken in respect of SMS terminations where rates provided by TRAI (i.e., reliable comparable data) are available. Accordingly, the CUP Method, as stipulated under the Indian TP Regulations, was selected as an appropriate method.

[5] Allocated between Bharti Hexacom and Bharti Airtel using an appropriate allocation key.

As per the TRAI Regulations, with respect to termination charges for the SMS terminated at the visiting circle, every telecom service provider is required to pay to visiting circle, a fixed termination charge as follows:

- ***2 paise** per SMS terminated within India (same as before) for Person-to-Person SMS.*
- ***7 paise** per SMS terminated for Application-to-Person (commercial communication purpose).*
- ***2 paise** per SMS terminated for Application-to-Person Government SMS.*

Accordingly, the policy of Bharti Hexacom to pay/receive termination charges as per TRAI Regulations should satisfy the arm's length principle.

6.2 Transfer of inventory and fixed assets

For this analysis, the Other Method as stipulated under the Indian TP Regulations, was selected as an appropriate method.

<u>Transfer of inventory:</u>

Bharti Hexacom / Bharti Airtel have transferred inventory at its carrying value. As the inventory has been transferred at carrying value, the price paid / receivable by Bharti Hexacom to / from Bharti Airtel is similar to the amount it would have expected to be paid / received in similar uncontrolled transactions between unrelated parties under similar circumstances. This provides evidence that the transaction with respect to transfer of inventory is in accordance with the arm's length principle.

Based on the above, aforementioned policy of transfer of inventory by Bharti Hexacom / Bharti Airtel should satisfy the arm's length principle.

<u>Transfer of fixed assets:</u>

Bharti Hexacom proposes to sell / purchase fixed assets on need basis at written down value appearing in the books of accounts of Bharti Hexacom / Bharti Airtel. As the assets are proposed to be transferred at written down value between Bharti Hexacom and Bharti Airtel, this would be similar to the price it would have expected to receive/pay in similar uncontrolled transactions between unrelated parties under similar circumstances.

Based on the above, aforementioned policy of transfer of fixed assets by Bharti Hexacom / Bharti Airtel should satisfy the arm's length principle.

6.3 Reimbursement of expenses and cross recharges

For this analysis, the Other Method, as stipulated under the Indian TP Regulations, was selected as an appropriate method.

<u>Reimbursement of expenses:</u>

Bharti Hexacom has incurred certain expenses in the nature of business reimbursement, such as market cost allocation, electricity charges, IT cost reimbursement, similar expenses etc. on behalf of Bharti Airtel. These expenses will subsequently be recovered by Bharti Hexacom from Bharti Airtel on a cost-to-cost basis. Similarly, Bharti Airtel has also incurred certain similar expenses on behalf of Bharti Hexacom which would subsequently be recovered by Bharti Airtel on a cost-to-cost basis. The third-party costs represent comparable data for such transactions.

Considering there is no service element involved in the transaction, the cross charges were made are at actuals vis-à-vis the amount charged by third parties. In view of the same, it was appropriate to pass on these amounts to the intended recipient without applying a mark-up.

Based on the above, the afore mentioned policy in respect of reimbursement of expenses by Bharti Hexacom / Bharti Airtel should satisfy the arm's length principle.

Inter-company cross recharges:

In order to satisfy arm's length principle for the aforesaid transaction, reliance has been placed on the arrangement of transaction, wherein both the companies receive proceeds from each other's customer for recharges made by the customers in their respective circles.

Accordingly, it is recommended that the recharge proceeds from the customer on sale of cross-recharges (as explained above in detail) should be transferred by Bharti Hexacom to Bharti Airtel and vice versa on a back-to-back basis.

6.4 Cost Allocations

For this analysis, the Other Method, as stipulated under the Indian TP Regulations, was selected as an appropriate method.

In order to determine the amount that would have been received/receivable by Bharti Airtel if it had been dealing with third parties, reliance is placed on the arrangement of this transaction.

The management of the Company has confirmed that it is proposed to allocate the cost amongst Bharti Hexacom and Bharti Airtel on an appropriate basis (reasonable allocation keys) as decided by the management of the Company. The proposed allocation keys are as follows:

1. **Employee, Manpower and other related cost** in relation to IPTV, FWA and DTH segments are proposed to be allocated on the basis of revenue earned under the respective segments or other reasonable allocation key.

2. **Cost allocation for the common S&D expenses** shall be allocated basis keys, such as Gross addition /revenue/ product ratio.

3. **Cost allocation for the common network expenses** shall be allocated on the basis of net revenue wherein, common network are identified.

4. **Security deposit transfer** shall be allocated based on the amount decided as security deposit by Bharti Hexacom and Bharti Airtel.

5. **Any other expenses of similar nature** shall be allocated on the basis of a reasonable allocation key, such as revenue/ product ratio.

The OECD Guidelines recognizes that in independent scenarios, the entities may join together and share part of total costs. Accordingly, the allocation of cost by Bharti Airtel between Bharti Airtel and Bharti Hexacom represents the price which is received or would have been received by Bharti Airtel in an uncontrolled transaction, from an unrelated party, under similar circumstances. It is also informed by the management that Bharti Airtel arrangement with the agency for manpower is for administrative convenience and there is no intention of providing any direct or proximate benefit to any of the related parties. Any benefit arising to the related parties is purely incidental and the cost of such benefit, if any, is not significant. Accordingly, it is appropriate to allocate the actual cost between Bharti Airtel and Bharti Hexacom.

Based on the aforesaid OECD Guidelines and management confirmation, it is recommended to allocate the cost between Bharti Airtel and Bharti Hexacom by Bharti Airtel on the basis of appropriate allocation key identified above.

6.5 Payment of royalty

For this analysis, the CUP Method, as stipulated under the Indian TP Regulations, was selected as an appropriate method.

In order to determine the arm's length royalty rate, it was found prudent to search for comparable agreements similar to the proposed agreement between Bharti Hexacom and Bharti Airtel. To perform the search, we used the RoyaltyStat's online database of royalty rates and all agreements available in the database (www.royaltystat.com).

The detailed search process has been encapsulated in later section of the report.

	No. of agreements	Mean	Median	35th Percentile	65th Percentile
Comparable Agreements	8	1.52%	1.19%	0.25%	2.00%

Based on above analysis, the arm's length range for royalty rate is **0.25% to 2.00%** of gross revenue with median of **1.19%**. It is recommended that Bharti Hexacom should pay a royalty within the abovementioned percentile range to satisfy the arm's length criteria.

Appendix A: Disclaimer

Our views contained in this memorandum are based on the completeness and accuracy of the information provided by personnel of Bharti Hexacom and/ or any assumptions made by Bharti Hexacom that were relied upon for the purpose of this memorandum. We disclaim any liability for advice based on incorrect or inaccurate information provided to us relating to the operations and related party transactions of Bharti Hexacom with its related parties. If any of the information and assumptions provided by Bharti Hexacom is not complete or accurate, it is imperative that we be informed accordingly, as the inaccuracy or incompleteness thereof could have a material effect on our findings.

B S R prepared the memorandum in accordance with the Indian transfer pricing regulations. In reviewing the related party transactions, useful inferences have been made from the “Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations” published by the Organisation for Economic Cooperation and Development and Guidance Note on report under section 92E of the Income-tax Act, 1961 issued by the Institute of Chartered Accountants of India.

B S R conclusions are based on the completeness and accuracy of the information provided by Bharti Hexacom and on the assumptions stated in this report. The audited results/ information supplied by Bharti Hexacom has been relied upon without audit or verification by B S R. B S R has also relied upon the confirmation provided by the management of the company due to the confidential nature of the information/ documents from business perspective. The management has confirmed that the transaction adopted as CUP is similar to the subject transaction. Should any of the facts or any of the assumptions be inaccurate or incomplete, it is imperative that B S R be informed immediately as inaccurate or incomplete information could materially affect the conclusion presented herein. Since tax laws are continually being revised, subsequent legislation and interpretations could significantly affect the tax consequences. We recommend checking this report again in the coming years to verify continued compliance with the local transfer pricing rules.

In preparing this memorandum, B S R has relied upon the accuracy of information generated from databases (which are licensed from third parties) and other websites specified in the memorandum. While we have reviewed the information contained in the databases and / or the relevant websites, we bear no responsibility in respect of any inaccuracies, omissions or changes, which may subsequently be discovered in the information contained in these databases or the websites.

The analysis and findings outlined in this memorandum are specifically in response to a request for advice by Bharti Hexacom. This memorandum is confidential and has been prepared solely for the use by Bharti Hexacom on the terms set out in our engagement letter. It should not be copied or disclosed to any third party, in whole or in part, without our prior written consent.

However, this memorandum may be presented (either in full or part) by Bharti Hexacom to the tax authorities should there be an inquiry into transfer pricing arrangements of Bharti Hexacom. Neither the firm nor any of its members or employees undertake responsibility in any way whatsoever to any person or company other than Bharti Hexacom, for any error or omission in the advice given, however caused. Our views are not binding on any authority or Court and hence, no assurance is given that a position contrary to our views/ opinions expressed herein will not be asserted by any authority and/ or sustained by an appellate authority or a Court of law. The responsibility for any taxes/ penalties arising from the course of assessments would not be rest on the firm.

In the preparation of this memorandum, we have relied on the provisions of the Income-tax Act, 2025, the Income-tax Rules, 2026, and judicial and administrative interpretations thereof, which are subject to change or modification by subsequent legislation or regulatory changes or administrative pronouncements or judicial decisions. Any such change, which could be prospective, retrospective or retroactive, could affect the validity of the conclusions herein. Unless specifically requested otherwise, we shall not update this memorandum for subsequent changes or modifications to the law, to the rules/ regulations, or to the judicial and administrative interpretations thereof.

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B S R & Co. LLP

Transfer Pricing Memorandum

Proposed dealings between Bharti Hexacom Limited and
Indus Towers Limited

Financial Year 2026-27

Contents

Abbreviations and acronyms

Abbreviations and acronyms	Full name
ALP	Arm's Length Price
B S R / Firm / we / us	B S R & Co. LLP
Company / Bharti Hexacom	Bharti Hexacom Limited
CPM	Cost Plus Method
CUP	Comparable Uncontrolled Price
Indus	Indus Towers Limited
OECD	Organization for Economic Cooperation and Development
OECD Guidelines	TP Guidelines for Multinational Enterprises and Tax Administrations published by the Organization for Economic Cooperation and Development in January 2022
PSM	Profit Split Method
RPM	Resale Price Method
TNMM	Transactional Net Margin Method

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1 Payment for passive infrastructure sharing

1.1 Scope of work

With regard to the subject related-party transaction (“RPT”), Bharti Hexacom Limited (“Bharti Hexacom” or “Company”) has approached B S R & Co. LLP (“B S R” or “Firm” or “we” or “us”) to undertake the following scope of work:

- Analysis of the nature of the RPT identified by the management of the Company;
- Analysis of the back-up documentation and information shared with us by the management of the Company;
- Conducting an economic analysis, which shall include selection of the most appropriate transfer pricing method, and determination of arm’s length price for the subject RPT.

Please note that the above scope covers our analysis in respect of the subject RPT proposed to be undertaken during Financial Year (“FY”) 2026-27.

1.2 Information relied upon

For the purpose of preparation of this memorandum, we have placed reliance on the following documents shared with us by the management of the Company:

- Details of the rental rates proposed in case of dealings between related parties;
- Details of the rental rates applicable in case of comparable uncontrolled transactions;
- Back-up documentation in respect of energy and other charges incurred.

Please note that our responsibility is limited to documenting the approach and rationale for determination of arm’s length price.

1.3 Overview of the transaction

This report covers the analysis of transaction in the nature of payment for passive infrastructure sharing undertaken between Bharti Hexacom and Indus Towers Limited (“Indus”).

1.4 Brief of transaction

Passive Infrastructure sharing refers to partaking of non-electronic infrastructure at cell site, including mast. Bharti Hexacom has entered into master services agreement with Indus for availing tower and related infrastructure services for which it pays rental and other charges as follows:

1. **Fixed lease rental charge**, which includes fixed rental charges per tower depending upon the type of tower used. The types of towers include, inter alia, Ground Base Tower (“GBT”), Roof Top Tower (“RTT”), 12 M, Rural Product etc.

2. **Energy and other costs**, which include charges for use of diesel, electricity and other costs associated with running network equipment installed on tower.

1.5 Economic analysis

1.5.1 Most appropriate method

The Indian Transfer Pricing ("TP") Regulations provide no priority of methods. Rather, the selection of the pricing method to be used to test the arm's length character of a controlled transaction must be made under the "most appropriate method rule". The most appropriate method is that method which, under the facts and circumstances of the transaction under review, provides the most reliable measure of an arm's length result.

In determining the reliability of a method, the two most important factors to be taken into account are (i) the degree of comparability between the controlled and uncontrolled transactions and (ii) the coverage and reliability of the available data. As per the Indian TP Regulations, other factors such as the nature and class of international transactions, conditions prevailing in the markets, the extent and reliability of adjustments that can be made, and the extent and reliability of assumptions that may be required in applying the method, shall also be taken into account.

Because the selection of the most appropriate method involves a test of relative merit, a method that may not be perfect is not rejected unless some other method can be shown to be more reliable or provide a better estimate of an arm's length result.

1.5.2 Selection of most appropriate method

Comparable Uncontrolled Price ("CUP") method compares the price charged for property or services transferred in a controlled transaction to the price charged for property or services transferred in a comparable uncontrolled transaction in comparable circumstances.

Comparability under the CUP method is particularly dependent upon the similarity of products and contractual terms among other things. Differences in geographic markets may also influence the reliability of the comparison under this method, particularly if they are material but cannot be reliably ascertained. Adjustments are therefore necessary to reflect any differences that would affect the price.

In practice, there are two types of comparable uncontrolled transactions. The first, known as an "Internal Comparable", is a transaction between one of the parties to the controlled transaction and an unrelated third party. The second, known as an "External Comparable", is a transaction between two unrelated third parties. Generally, specific details regarding internal comparables are more readily available to the parties engaged in the controlled transaction than details regarding external comparables.

With regard to the facts of the case and the nature of the transaction relating to payment for passive infrastructure sharing, CUP method was considered the most appropriate method for determining the arm's length price. However, the applicability of CUP method as the most appropriate method would depend upon the availability of reliable comparable data.

Internal CUPs

Based on the information provided by the management of the Company, Bharti Hexacom has entered into similar transactions with third parties for availing passive infrastructure services. Accordingly, the said transactions were considered as CUP for benchmarking purposes.

External CUPs

The Company did not have any information from publicly available data that would satisfy the degree of similarity required to establish external CUP. Accordingly, external comparables were not considered for benchmarking the transaction under analysis.

Therefore, since the internal comparable transactions are available to evaluate the transactions with the related parties in India, internal CUP method is an appropriate method for our analysis of the said transaction. Consequently, Resale Price Method ("RPM"), Cost Plus Method ("CPM"), Profit Split Method ("PSM"), Transactional Net Margin Method ("TNMM") and Other Method were not considered for the purpose of benchmarking this transaction.

1.5.3 Determination of arm's length results

1.5.3.1 Standard Rental Rates

We understand that Bharti Hexacom has entered into similar arrangements with unrelated parties for availing passive infrastructure services. Accordingly, the prices agreed by Bharti Hexacom with such unrelated parties have been used as a CUP to benchmark the transaction of payment of rental rates per tower by Bharti Hexacom to Indus. As a result, a comparison of the rental rates charged under the subject related party transaction was made with rental rates agreed between Bharti Hexacom and third parties.

The detailed comparison of the rates has been provided in the later sections of this report.

Based on the analysis of CUP data, it is evident that the rates charged by Indus from Bharti Hexacom are similar to the rates charged by third party to Bharti Hexacom. In view of the same, the transaction under analysis satisfies the arm's length criteria.

1.5.3.2 Energy and other charges

Indus charges expenses in relation to diesel, electricity etc. to Bharti Hexacom based on actual costs levied on Indus by third parties.

The costs incurred by Indus in relation to energy and other charges are completely third-party costs and no value added function is being performed by Indus per-se. Since no value is being added by Indus specifically in relation to such charges, such costs can be treated in the nature of 'pass through costs' and accordingly, no mark-up is warranted on such costs.

In light of the above, it is recommended that Indus should not apply any mark-up on the pass through costs levied by third party service providers. Such costs should be cross charged on cost-to-cost basis to Bharti Hexacom.

Accordingly, the policy of Indus to recover third party costs from Bharti Hexacom without applying a mark-up should meet the arm’s length principle.

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2 Bandwidth capacity and other telecom services

2.1 Scope of work

Refer Section 1.1 above.

2.2 Information relied upon

For the purpose of preparation of this memorandum, we have placed reliance on the nature of services rendered by Bharti Hexacom to Indus, along with requisite confirmation from the management of the Company.

Please note that our responsibility is limited to documenting the approach and rationale for determination of arm's length price.

2.3 Overview

This report covers the analysis of transaction in the nature of provision of bandwidth, internet, ISP, MPLS & other telecom services entered between Bharti Hexacom and Indus.

2.4 Economic analysis

2.4.1 Most appropriate method

Refer Section 1.5.1 above.

2.4.2 Selection of the most appropriate method

With regard to the facts of the case and the nature of the transaction, the RPM, CPM, PSM and TNMM cannot be applied and accordingly were eliminated from the consideration as an appropriate method. The CUP method can be considered as the most appropriate method for determining the arm's length nature of the transaction under analysis. However, the applicability of the CUP method as the most appropriate method would depend upon the availability of reliable comparable data.

In the instant case, the relevant internal CUP data for similar uncontrolled transaction has not been shared with us by the management of the Company. Hence, no internal comparables were available in respect of the subject transaction. Further, no external data regarding similar transaction in uncontrolled circumstances was available with the management of the Company. Accordingly, external comparables were not considered for benchmarking the transaction under analysis.

In view of the above, the 'Other Method', provided under the Indian TP Regulations, was evaluated and considered as the most appropriate method for determining the arm's length price for this transaction.

Further, OECD guidelines permit the use of any other method and state that the taxpayer retain the freedom to apply any methods not described in OECD guidelines to establish prices, provided the prices satisfy the arm's length principle.

Accordingly, the price which has been charged or paid, or would have been charged or paid for the same or similar uncontrolled transaction, is considered for the purpose of determining the arm's length price.

2.5 Determination of arm's length results

It is recommended that Bharti Hexacom should align the price it charges from Indus for providing bandwidth, internet, ISP, MPLS etc. with the prevailing competitive market price charged from third-party customers in order to satisfy the arm's length criteria.

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However, this memorandum may be presented (either in full or part) by Bharti Hexacom to the tax authorities should there be an inquiry into transfer pricing arrangements of Bharti Hexacom. Neither the firm nor any of its members or employees undertake responsibility in any way whatsoever to any person or company other than Bharti Hexacom, for any error or omission in the advice given, however caused. Our views are not binding on any authority or Court and hence, no assurance is given that a position contrary to our views/ opinions expressed herein will not be asserted by any authority and/ or sustained by an appellate authority or a Court of law. The responsibility for any taxes/ penalties arising from the course of assessments would not be rest on the firm.

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