

## Acquisition of Yipes by Reliance Communications

### Frequently Asked Questions (FAQ)

#### Who are Reliance Communications and FLAG?

**Reliance Communications Limited**, founded by the late Shri. Dhirubhai H Ambani (1932-2002), is the flagship company of the **Reliance Anil Dhirubhai Ambani Group**. Rated among “Asia's Top 5 Most Valuable Telecom Companies,” Reliance Communications is India's foremost and truly integrated telecommunications service provider.

The company has a customer base of over 35 million, including over 30 million wireless customers (making it Top 2 in India) and over 1 million individual overseas retail customers. Reliance Communications corporate clientele includes 600 Indian and 250 multinational corporations, and over 200 global carriers.

The company has established a pan-India, next generation, integrated (wireless and wireline), convergent (voice, data and video) digital network that is capable of supporting best-of-class services spanning the entire Infocomm value chain, covering over 8,000 towns and 300,000 villages. Reliance Communications owns and operates the world's largest next-generation IP-enabled connectivity infrastructure, comprising over 150,000 kilometres of fibre optic cable systems in India, USA, Europe, the Middle East and the Asia Pacific region.

Website: [www.reliancecommunications.co.in](http://www.reliancecommunications.co.in)

**Reliance Anil Dhirubhai Ambani Group** is one of the Top 3 business groups in India with a group market capitalisation of over \$ 40 billion in aggregate, net assets of over \$ 7 billion and no net debt.

The activities of Reliance Anil Dhirubhai Ambani Group span: telecommunications – see Reliance Communications; power generation, transmission, and distribution; fuel sourcing, trading, and transportation and coal bed methane and oil and gas exploration and production; financial services including mutual funds, life and general insurance, broking and distribution, and investments; entertainment covering film production, distribution and exhibition, FM radio stations, and online gaming and networking; infrastructure and other businesses, such as mass transportation, healthcare, training, and call centres.

**FLAG Telecom**, a wholly owned subsidiary of Reliance Communications, operates the world's largest private undersea cable system, spanning 65,000 route kilometres and four continents, and connecting 37 key business markets in Asia, Europe, the Middle East and the USA.

FLAG has announced a \$ 1.5 billion expansion of its network over the next 3 years. Following this expansion, its network will span 110,000 kilometres and five continents, and connect 60 key business markets, thereby touching 80% of the world's population and 90% of global GDP.

FLAG also owns and operates a low-latency, global MPLS-based IP network, which connects most of the world's principal international Internet exchanges. FLAG offers a focused range of global products, including global bandwidth, IP, Internet, Ethernet and Co-location services.

It has an established customer base of more than 200 leading operators, including all of the top ten international carriers.

Website: [www.flagtelecom.com](http://www.flagtelecom.com)

### **Who is Yipes?**

Yipes Holdings is the parent of Yipes Enterprise Services, a leading provider of managed Ethernet Services. Yipes, based in San Francisco, California, was founded in July 2002 when it acquired the assets of Yipes Communications. Privately held, Yipes has raised \$ 106 million in equity funding. Yipes annual revenues grew more than 41 percent in 2006. The company became EBITDA positive in 2005 and operating cash flow positive in 2006.

Primary investors in Yipes include: Norwest Venture Partners, JPMorgan Partners LLP, Sprout Group (a venture capital affiliate of Credit Suisse), and Crosslink Capital.

A leading telecom innovator, Yipes has been recognized for its growth strategy and innovation in 2006 by Frost & Sullivan, the Metro Ethernet Forum, Heavy Reading and Light Reading. In 2007, Yipes was recognized by The Banker, the premier banking magazine of the Financial Times, Telephony Magazine and New Paradigm Research Group. Yipes holds four patents on Ethernet services technologies.

Website: [www.yipes.com](http://www.yipes.com)

## **What is Ethernet?**

Ethernet (IEEE 802.3) is a set of frame-based computer networking technologies and protocols that define the way computers communicate. Ethernet protocols define the wiring and signaling standards for the Physical layer as well as the network access standards at the Media Access Control (MAC)/Data Link layer (layer 2). More than 95 percent of corporate enterprise networks use Ethernet, making it one of the most ubiquitous and familiar networking technologies in the world. Ethernet is an easy-to-use, fast and simple networking protocol.

## **What are Ethernet Services?**

Ethernet services (a.k.a. Carrier Ethernet services, Layer 2 VPN, Transparent LAN services) are private data communications transport services based on Ethernet technology. Ethernet services are an alternative to legacy private transport services such as frame relay, ATM and private line as well as public transit services such as the Internet (IP). Ethernet services are offered by most major telecom providers within a metro area (Managed Metro Ethernet or Metro Area Network services) or between cities (Managed WAN Ethernet services). Because Ethernet switches handle data more efficiently than a router, Ethernet services are super low latency, low jitter and highly reliable. Ethernet services are scalable from 1 Mbps to 1 Gbps, supporting the majority of enterprise networking needs. Finally, Ethernet services are typically 20-30 percent less expensive than similar layer 3 (IP) VPN services (source: Network Computing).

Faster, more scalable, more reliable and more cost effective than legacy services, Ethernet services are the fastest growing sector of the wireline telecom industry. Infonetics forecasts the worldwide Ethernet services market to grow to \$ 25 billion by 2010 (30 percent CAGR).

## **Why is Reliance acquiring Yipes?**

Reliance Communications' vision for its Global Data business is to be a leading provider of sophisticated, cutting-edge data communication products and services, specializing in application and content distribution, which will span into developed and emerging markets, delivered over the FLAG Global Network.

The acquisition of Yipes is a key step in Reliance Communications plan to move up the value chain and closer to its customers in the Global Data business. It significantly increases Reliance's revenues from the enterprise segment internationally.

FLAG and Yipes are highly complementary in terms of their products, services, and networks.

With the acquisition of Yipes, Reliance will enter the lucrative US enterprise data market and will be better able to serve its international customers directly in that market. With the backing of Reliance, Yipes will double the coverage of its services in the US.

Yipes Ethernet services will also be overlaid on FLAG's global next generation network, allowing Yipes to expand its reach worldwide and enabling FLAG to create more value from its network assets in the strongholds of India, the Middle East, and East Asia.

## **Why does Yipes want to be acquired by Reliance?**

Yipes has had tremendous success with its managed Ethernet service offering. With more than 950 customers and the most advanced Ethernet service offerings (Global VPLS, Class of Service, HawkEye monitoring services, bandwidth on demand and Yipes FinancialConnect!), Yipes leads the market in this category.

The combination of Yipes' Ethernet services with FLAG's network will create a Global Service Delivery Platform with unmatched coverage and capability. Together, we will be able to replicate our success and offer cutting-edge services that will position the combined company two years ahead of the market.

At the same time, Yipes has seen the need for global expansion and believes that this acquisition will enable Yipes to leverage Reliance's and FLAG's global assets and expertise.

**What was the transaction price?**

Reliance Communications, through an affiliate, has acquired 100 percent of Yipes Holdings in an all cash offer for \$ 300 million.

**Was this a merger or acquisition?**

This was an acquisition of Yipes Holdings by FLAG Telecom, a wholly owned subsidiary of Reliance Communications.

**Will Yipes and FLAG be standalone companies or combine?**

Yipes will become a wholly-owned subsidiary of FLAG Telecom.

Yipes will operate as a strategic business unit within FLAG.

The existing Yipes management team will continue with their current responsibilities for the day to day operation of the business. However, the overall strategic direction and business plan execution will be fully integrated with FLAG so as to meet the Reliance's Global Data business objectives.

FLAG Telecom will continue to operate under the leadership of its President, Mr. Punit Garg. FLAG primarily serves global carriers, service providers and content providers.

## **Why maintain two brands?**

Yipes has established a strong brand in the U.S., especially in the financial, legal, and enterprise sectors. The Yipes brand is associated with delivering high performance, high customer satisfaction, industry-tailored solutions, and for its technical innovation.

FLAG is well known by carriers, service providers, and content providers in Asia and Europe as the leading undersea cable system operator. FLAG is widely recognized for its ability to build and manage the largest fiber loop around the globe. The FLAG brand is associated with global coverage, scale, and multi-cultural diversity.

Since the companies' core brands appeal to different markets, FLAG and Yipes will continue to market themselves under their separate brands.

## **What new services will FLAG and Yipes be rolling out?**

Stay tuned for more announcement from Reliance Communications, FLAG Telecom and Yipes regarding new services we plan to bring to the market.

## **What are Financial Extranet services?**

Financial Extranet services are private networking solutions offered by specialty carriers to interconnect traders, brokerages, FCMs, exchanges and trading platforms to each other to facilitate electronic trading. BT Radianz, SAVVIS and Yipes offer Financial Extranet services. The primary value proposition for an extranet service is to minimize the cost of connecting to many different platforms. Many of the older networks that support the extranet services today were built to support low-bandwidth market data and news feeds more than a decade ago.

## **What is Yipes FinancialConnect!?**

Yipes FinancialConnect! is the industry's first Financial Extranet that uses Ethernet services as the underlying transport network. Yipes uses its global Ethernet services network, robust metro fiber assets, and strength in financial services sector to deliver a service with the lowest latency and jitter and is highly reliable and secure. Electronic trading, especially algorithmic trading, relies on super-fast networks that can deliver even a millisecond of advantage. Yipes connects more than 350 member firms (buy side and sell side firms) to more than sixty-five providers (Exchanges, ECNs and trading platforms), including SIAC SFTI (NYSE, AMEX, OPRA), NASDAQ, BATS, BOX, ISE, CME, NYMEX, ICE, Trading Technologies, CQG, GL Trade and Fortis Clearing.

Older providers such as BT Radianz and SAVVIS operate their extranets over a routed (IP) network that is typically slower and less scalable than Ethernet networks. Yipes is the only global provider of Ethernet-based, Financial Extranet services.

### **How will Yipes customers be impacted?**

This transaction will not impact any of Yipes' existing 950 customers, nor will it impact Yipes' service levels or relationships with customers. For more information, please contact your Yipes sales representative.

Yipes customers can expect expanded global coverage and new, innovative services.

### **How will FLAG customers be impacted?**

This transaction will not impact any of FLAG's existing customer agreements, nor will it impact FLAG's service levels or relationships with customers. FLAG customers can directly connect to US metros leveraging Yipes.

Yipes customers can expect new, innovative services, including Ethernet services and value added services delivered over a Global Service Delivery Platform.

### **How will the roles of the executives at FLAG and Yipes be affected?**

Yipes, a wholly-owned subsidiary of FLAG Telecom, will operate as a strategic business unit within FLAG. The existing Yipes management team will continue to operate the business, reporting to Yipes' existing CEO, Mr. John Scanlon.

FLAG Telecom, headquartered in London, will continue to operate under the leadership of its existing President, Mr. Punit Garg.

### **How will the acquisition affect FLAG's IPO plans?**

Reliance will provide an update on FLAG's IPO plans at a later date.