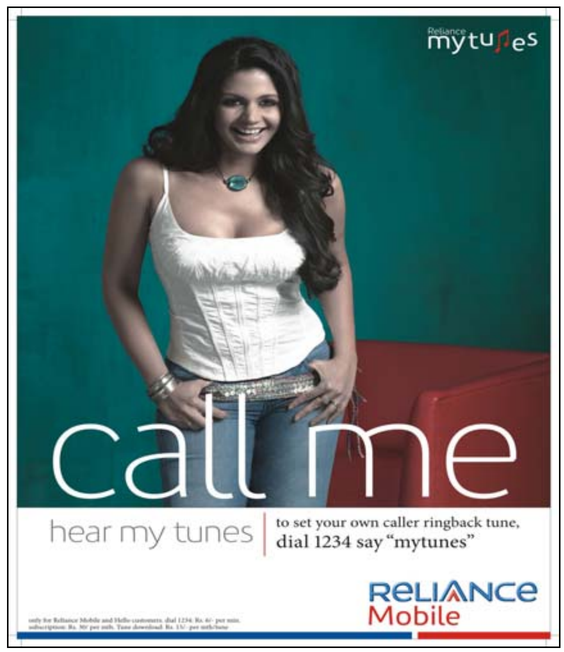
Report on the Unaudited Financial Status, Results of Operations, and Cash Flows for the Quarter ended September 30, 2006

Reliance Communications
Anil Dhirubhai Ambani Group



Reliance Communications Limited

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October 31, 2006

Supplemental Disclosures

Safe Harbour: Some information in this report may contain forward-looking statements. We have based these forward-looking statements on our current beliefs, expectations, and intentions as to facts, actions and events that will or may occur in the future. Such statements generally are identified by forward-looking words such as "believe", "plan", "anticipate", "continue", "estimate", "expect", "may", "will" or other similar words.

A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We have chosen these assumptions or bases in good faith, and we believe that they are reasonable in all material respects. However, we caution you that forward-looking statements and assumed facts or bases almost always vary from actual results, and the differences between the results implied by the forward-looking statements and assumed facts or bases and the actual results could be material depending on the circumstances. You should also keep in mind that any forward-looking statement made by us in this report or elsewhere speaks only of the date on which we made it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no duty to, and do not intend to, update or revise the forward-looking statements in this report after the date hereof. In light of these risks and uncertainties, any forward-looking statement made in this report or elsewhere may or may not occur and has to be read and understood along with this supplemental disclosure.

General Risk: Investments in equity and equity-related securities involve a degree of risk and investors should not invest in the equity shares of the Company unless they can afford to take the risk of losing their investment. For taking an investment decision, investors must rely on their own examination of the Company including the risks involved.

Convenience Translation: All references in this report to "Rs" are to Indian Rupees and all references herein to "US$" are to United States Dollars.

We publish our financial statements in India Rupees, the legal currency of the Republic of India. All amounts translated into United States Dollars in this report are provided solely for the convenience of the reader, and no representation is made that the Indian Rupee or United States Dollar amounts referred to herein could have been or could be converted into United States Dollars or Indian Rupees respectively, as the case may be, at any particular rate, the rates stated in this report, or at all.

Others: In this report, the terms "we", "us", "our", "the Company" or "the Group", unless otherwise specified or the context otherwise implies, refer to Reliance Communications Limited ("Reliance Communications") and its affiliates, including, inter alia, FLAG Telecom Group Limited ("FLAG"), Reliance Telecom Limited ("RTL"), and Reliance Communications Infrastructure Limited ("RCIL"). Further abbreviations are defined within this report.

Any discrepancies in any table between total and sums of the amounts listed are due to rounding off.

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1. Overview

1.1. Introduction

Reliance Communications Limited ("Reliance Communications" or "the Company") is India's largest integrated communications service provider in the private sector with over 28 million individual, enterprise, and carrier customers.

We operate pan-India across the full spectrum of wireless, wireline, and long distance, voice, data, video and internet communication services. We also have an extensive international presence through the provision of long distance voice, data and internet services and submarine cable network infrastructure globally.

As presently constituted, Reliance Communications was formed by the demerger and vesting of the telecommunications undertakings of Reliance Industries Limited ("RIL"). The demerger and vesting became effective on December 21, 2005. Our shares were listed in India on the Bombay Stock Exchange and National Stock Exchange on March 6, 2006 and our Global Depositary Receipts were listed on the Luxembourg Stock Exchange on August 3, 2006.

1.2. Strategic Business Units

The business of Reliance Communications is organized into three strategic customer-facing business units: Wireless, Global, and Broadband. In addition, one of the wholly owned subsidiaries of Reliance Communications is engaged in the marketing and distribution of wireless handsets. Our strategic business units are supported by our fully integrated, state-of-the-art network and operations platform and by the largest retail distribution and customer service facilities of any communications service provider in India.

1.2.1. Wireless

We offer CDMA and GSM based wireless services, including mobile and fixed wireless voice, data, and value added services for individual consumers and enterprises. Our primary brands are Reliance Mobile for the mobile portfolio of services and Reliance Hello for the fixed wireless portfolio of services. Our voice services comprise both local, and national and international long distance calling. Our data services comprise wireless multimedia over the "click, browse, and select" Reliance Mobile World platform, wireless internet access (Reliance Netconnect), and wireless data VPNs for connecting devices such as point-of-sale, lottery and ATM terminals. We also offer public calling office ("PCO") and coin collection box services over our wireless network through independent retail operators of such facilities.

Our presence in the wireless market increased significantly with the commercial launch nationwide of our CDMA based services in mid-2003. Within three years, we have become the largest provider of wireless communication services in the country, as measured by voice and data minutes of use. As at September 30, 2006, we had 26 million wireless customers in aggregate, representing a 20.5% market share of the All-India wireless market. We had the largest in-service base of multimedia-enabled handsets (over 18 million) and the largest number of unique users of such services (8.1 million customers). In addition, we are the largest PCO operator in the private sector with a 52.8% market share (as at June 30, 2006).

1.2.2. Global

We offer national and international long distance calling services. We operate this business unit primarily on a wholesale basis, offering carriage and termination to other carriers as well as on an inter segment basis to other business units of Reliance Communications. In overseas markets, we offer a retail virtual calling card service for calls to India (Reliance India*Call*) and other international destinations. This service is currently active in the United States, Canada, the United Kingdom, and Australia.

We entered the long distance market in India in mid-2003, and have become the largest carrier of international voice minutes, with a market share of over 40%. In addition, we have over 800,000 active customers for our Reliance India*Call* service, a unique overseas consumer franchise. Usage of Reliance India*Call* accounts for around 40% of total retail market calls from the United States to India.

We offer national and international (submarine cable) network infrastructure on both an Indefeasible Right of Use ("IRU") and leased circuit basis, internet bandwidth, and managed data services to other carriers and enterprises globally. We have global partnerships with carriers such as C&W, Verizon/MCI, Sprint, Deutsche Telekom, and BT for Global VPN and Bi-lateral IPLCs.

We own and operate through FLAG the largest private submarine cable system in the World, directly connecting 28 countries from the East coast of the United States, to Europe, the Middle East, India, South and East Asia, through to Japan. FLAG Global Network provides unique connectivity between the world's largest telecommunications market in developed countries and the world's fastest growing telecommunications markets in developing countries.

We are currently extending the construction of the FALCON cable system, which directly connects 12 countries in the Middle East, East Africa and the Mediterranean to the rest of the world through the FLAG Global Network. FLAG and FALCON provide unique on-net global connectivity and our long term customers include more than 200 global carriers and more than 400 large enterprises. Through FLAG and FALCON, we are the largest provider of international bandwidth in the Middle East and Asia. Ownership of these assets further allows us to leverage our strengths in the Indian market.

1.2.3. Broadband

We offer the most complete portfolio of enterprise voice, data, video, internet and IT infrastructure services of any operator in India. These services include: national and international private leased circuits, broadband internet access, audio and video conferencing, MPLS-VPN, Centrex, and managed internet data centre ("IDC") services. We offer unique, value added products and services to large and medium enterprises for their communications, networking, and IT infrastructure needs across the country. We are the clear market leader in the highest growth segments of the market, comprising MPLS-VPN, Centrex, and IDC services.

We launched our enterprise broadband services in the first half of 2005, focusing initially on the top 30 cities in India. In these cities, we are leveraging our existing metro fibre optic networks to establish direct building connectivity on-net. We currently have over 270,000 buildings directly connected to our network and over 425,000 access lines.

Our primary building access technology is metro Ethernet LAN, which offers performance and cost advantages versus other access technologies in areas with high service potential. Our Metro Ethernet LAN technology gives us a significant edge in delivering high bandwidth data services, as compared with all of our competitors who are deploying legacy copper networks. In cities where we are not currently providing wireline direct building connectivity, we have selectively deployed wireless LMDS to access targeted buildings in accordance with our customers requirements.

We have established an enterprise customer base that includes 750 of the Top 1,000 Indian enterprises and MNCs and are expanding rapidly in the SME segment. We are the market leader in IDC services (Reliance Data Center) with over 50% market share and are also the leading provider of MPLS-VPN and Centrex solutions.

In the consumer segment, we offer feature rich fixed line phone services and broadband internet access services with a unique speed select option. Our consumer roll out to date has been predominantly in the same areas where we have activated our enterprise services. Our consumer and enterprise broadband services ride on the same access and core networks. In addition to our current consumer product offerings, we have completed trials of IPTV services in more than 10,000 premises.

1.3. Network and Operating Facilities

Our CDMA wireless service operates nationwide, while our GSM wireless service operates in 8 licensed service areas ("Circles") in Eastern and Central India. Our wireless network covers over 6,000 towns across India, providing coverage of over 54% of the population. This is the largest wireless network in India in terms of coverage and capacity. CDMA-2000 1xRTT technology is deployed throughout our CDMA network nationwide, offering bandwidth of 144 Kbps.

Our national inter-city long distance network is the largest next generation network in India, with over 68,000 route kilometres of ducted fibre optic cables. In addition, we have a totally unique asset in over 20,000 route kilometres of ducted fibre optic cables installed in the leading cities in India. The entire inter-city and metro fibre optic backbone network is deployed in a ring and mesh architecture and is MPLS enabled. The Reliance Data Network has over 180 MPLS integrated network nodes. In addition, we have over 200,000 sq. ft. of IDC capacity in multiple locations. Our network operating centre in Navi Mumbai, India, is one of the most advanced in the world. The entire range of our products and services is enabled by streamlined, fully integrated, flow through operating and business support systems. These facilities provide us with by far the most superior platform in India for offering bandwidth intensive, feature rich, converged services and solutions for consumers, enterprises, and carrier customers with virtually limitless scalability.

Our national networks are integrated with our international networks – the 65,000 route kilometres FLAG cable systems, including the recently commissioned 11,500 route kilometres FALCON cable system.

Our consumer and SME offerings are supported by one of the most extensive and powerful distribution networks in India with throughput capacity for 20 million handsets per annum. The backbone of our retail presence is over 1,650 owned and operated Reliance World stores with a presence in over 700 Indian cities. These stores offer customer activation and after sales service and also operate as broadband experience centres offering a range of broadband internet and video conferencing applications. Together with preferred retailers, we have a branded retail presence in over 1,300 towns. Our customer service is further supported by our multi-lingual contact centre facilities, with over 6,000 seats.

1.4. Principal Operating Companies

Reliance Communications Limited is a major operating company and is also the holding company for the other major operating companies in the Group. Reliance Communications provides CDMA-based wireless, wireline, broadband, and long distance services in India and overseas. Its major assets are the CDMA wireless network, transmission networks used in its business, and the contact centres.

FLAG Telecom Group Limited ("FLAG") is a wholly owned subsidiary of Reliance Communications. FLAG provides international connectivity services and infrastructure. Its major assets are the FLAG and FALCON submarine cable systems.

Reliance Telecom Limited ("RTL") and **Reliable Internet Services Limited** ("RISL") are wholly owned subsidiaries of Reliance Communications. RTL provides GSM-based wireless services in 7 Circles, while RISL provides GSM-based wireless services in 1 further Circle. RTL and RISL own the GSM wireless networks in their respective Circles.

Reliance Communications Infrastructure Limited ("RCIL") is a wholly owned subsidiary of Reliance Communications. RCIL provides wireless multimedia (Reliance Mobile World) and internet access (Reliance Netconnect) services to customers of Reliance Communications. It also undertakes wireless handset distribution and marketing and IDC services.

2. Financial Highlights

Unaudited financial results for the quarter ended September 30, 2006 as per Indian GAAP. In the tables below, "Qtr ended 30/9/06" refers to the three month period ended September 30, 2006 and "Qtr ended 30/6/06" refers to the three month period ended June 30, 2006. Exchange rate for conversion of Indian Rupees to United States Dollars is Rs 45.95 = US$ 1.00 for the quarter ended September 30, 2006 and Rs 45.87 = US$ 1.00 for the quarter ended June 30, 2006, being the noon buying rates as announced by the Federal Reserve Bank of New York on September 29, 2006 and June 30, 2006 respectively.

2.1. Summarized Consolidated Statement of Operations

(Rs Million, except ratios)

Particulars	Qtr ended 30/6/06	Qtr ended 30/9/06	Q-on-Q Growth (%)
Total revenue	32,501	35,260	8.5%
Net revenue	23,215	26,192	*12.8%*
EBITDA	12,062	13,524	*12.1%*
Cash profit from operations	10,641	13,260	*24.6%*
Profit before tax and extraordinary item	5,549	7,234	*30.4%*
Extraordinary item	150	150	*0.0%*
Profit before tax	5,399	7,084	*31.2%*
Net profit	5,127	7,023	*37.0%*
EBITDA margin (%)	*37.1%*	*38.4%*	

(US$ Million)

Particulars	Qtr ended 30/6/06	Qtr ended 30/9/06	Q-on-Q Growth (%)
Total revenue	709	767	*8.2%*
Net revenue	506	570	*12.6%*
EBITDA	263	294	*11.8%*
Cash profit from operations	232	289	*24.6%*
Profit before tax and extraordinary item	121	157	*29.7%*
Extraordinary item	3	3	*0.0%*
Profit before tax	118	154	*30.5%*
Net profit	112	153	*36.6%*
EBITDA margin (%)	*37.1%*	*38.4%*	

Note: The extraordinary item of Rs 150 million in quarter ended September 30, 2006 and in quarter ended June 30, 2006 relates to customer verification costs.

2.2. Summarized Consolidated Balance Sheet

(Rs Million, except ratios)

Particulars	As at 30/9/06
Assets	
Net fixed assets, including capital work-in-progress	313,258
Goodwill	2,237
Investments	125
Current assets, loans and advances	49,464
Total assets	365,084
Liabilities and stockholders equity	
Total current liabilities and provisions	164,121
Net debt	20,578
Total liabilities	184,699
Stockholders equity	180,286
Minority interest	99
Total liabilities and stockholders equity	365,084
Net debt to annualized EBITDA (x)	*0.38*
Net debt to stockholders equity (x)	*0.11*
Book value per equity share (Rs)	*88*

(US$ Million)

Particulars	As at 30/9/06
Assets	
Net fixed assets, including capital work-in-progress	6,817
Goodwill	49
Investments	3
Current assets, loans and advances	1,076
Total assets	7,945
Liabilities and stockholders equity	
Total current liabilities and provisions	3,572
Net debt	448
Total liabilities	4,020
Stockholders equity	3,923
Minority interest	2
Total liabilities and stockholders equity	7,945

2.3. Summarized Statement of Operations by Segment

2.3.1. Wireless

(Rs Million, except ratios)

Particulars	Qtr ended 30/6/06	Qtr ended 30/9/06	Q-on-Q Growth (%)
Gross revenue	24,320	25,744	*6%*
Net revenue	16,544	17,998	*9%*
EBITDA	8,746	9,294	*6%*
EBIT	5,144	5,131	*0%*
EBITDA margin (%)	*36.0%*	*36.1%*	

2.3.2. Global

(Rs Million, except ratios)

Particulars	Qtr ended 30/6/06	Qtr ended 30/9/06	Q-on-Q Growth (%)
Gross revenue	12,340	13,158	*7%*
Net revenue	7,174	7,283	*2%*
EBITDA	2,842	3,199	*13%*
EBIT	1,554	1,785	*15%*
EBITDA margin (%)	*23.0%*	*24.3%*	

2.3.3. Broadband

(Rs Million, except ratios)

Particulars	Qtr ended 30/6/06	Qtr ended 30/9/06	Q-on-Q Growth (%)
Gross revenue	2,271	2,710	*19%*
Net revenue	1,872	2,331	*24%*
EBITDA	882	1,215	*38%*
EBIT	518	851	*64%*
EBITDA margin (%)	*38.8%*	*44.8%*	

Note: "Net revenue" in 2.3.1, 2.3.2, and 2.3.3 above represents gross segment revenue less license fees and access charges.

2.3.4. Others

(Rs Million, except ratios)

Particulars	Qtr ended 30/6/06	Qtr ended 30/9/06	Q-on-Q Growth (%)
Other income	1,028	1,128	*10%*
Other expenses	(798)	(1,096)	*-37%*
EBITDA	230	32	*-86%*
EBIT	(30)	(260)	*NM*

Note: "Other income" in 2.3.4 above represents revenue earned from operating activities not included in segments (as defined). "Other expenses" in 2.3.4 above represents expenses related to such activities and unallocated corporate expenses.

2.4. Contribution to Revenue by Segment

(Rs Million, except ratios)

Segment	Qtr ended 30/6/06		Qtr ended 30/9/06	
	Revenue	% of Total	Revenue	% of Total
Wireless	24,320	*61%*	25,744	*60%*
Global	12,340	*30%*	13,158	*31%*
Broadband	2,271	*6%*	2,710	*6%*
Others	1,028	*3%*	1,128	*3%*
Sub Total	39,959	*100%*	42,740	*100%*
Eliminations	*(7,458)*		*(7,480)*	
Total	32,501		35,260	

Note: "Others" comprises "Other income" as shown in 2.3.4 above.

2.5. Contribution to EBITDA by Segment

(Rs Million, except ratios)

Segment	Qtr ended 30/6/06		Qtr ended 30/9/06	
	EBITDA	% of Total	EBITDA	% of Total
Wireless	8,746	*69%*	9,294	*68%*
Global	2,842	*22%*	3,199	*23%*
Broadband	882	*7%*	1,215	*9%*
Others	230	*2%*	32	*0%*
Sub Total	12,701	*100%*	13,740	*100%*
Eliminations	*(639)*		*(216)*	
Total	12,062		13,524	

2.6. Investment in Projects by Segment

(Rs Million, except ratios)

Segment	Cumulative to 30/9/06		Qtr ended 30/9/06	
	Rs Million	% of Total	Rs Million	% of Total
Wireless	170,100	*58%*	14,990	*77%*
Global	83,820	*28%*	3,670	*19%*
Broadband	26,290	*9%*	270	*1%*
Others	14,708	*5%*	528	*3%*
Total	294,918	*100%*	19,458	*100%*

Note: Investment in projects comprises gross fixed assets, intangible assets, capital work-in-progress, and unamortized one time entry fee paid. The categories of assets allocated to each segment are set out in Section 5.

3. Key Performance Indicators

The financial figures used for computing ARPU, RPM, SMS revenue, non-voice revenue, and ARPL are based on Indian GAAP. Data used for computing wireless market share is derived from reports published by industry associations. Although we believe that such data is reliable, it has not been independently verified. Definitions of terms are set out in Section 8. "Qtr ended 30/9/06" refers to the three month period ended September 30, 2006; "Qtr ended 30/6/06" refers to the three month period ended June 30, 2006.

3.1. Wireless

Metric	Unit	Qtr ended 30/6/06	Qtr ended 30/9/06
Circles operational	Nos	23	23
Wireless customers	Nos	22,522,329	25,979,332
GSM Wireless	Nos	*2,316,771*	*2,958,485*
CDMA Wireless	Nos	*20,205,558*	*23,020,847*
Wireless market share (All-India)	%	20.6%	20.5%
Wireless net adds	Nos	2,310,655	3,457,003
Market share – wireless net adds	%	17.6%	19.9%
Pre-paid % of total wireless customers	%	79.4%	81.4%
Pre-paid % of wireless net adds	%	80.0%	94.6%
Wireless ARPU	Rs/Sub	379	354
Wireless net ARPU	Rs/Sub	259	247
Wireless churn	%	2.6%	1.9%
Wireless minutes of use (MoU)	Bn Mins	31.44	33.52
Wireless MoU per customer/month	Min/Sub	491	461
Wireless revenue per minute (RPM)	Rs/Min	0.77	0.77
SMS revenue (% of ARPU)	%	1.8%	1.9%
Non-voice revenue (% of ARPU)	%	6.2%	6.3%
Wireless multimedia users	Nos Mn	7.9	8.1
Wireless internet users	Nos	354,673	369,820

3.2. Global

Metric	Unit	Qtr ended 30/6/06	Qtr ended 30/9/06
Total ILD minutes	Mn Mins	1,214	1,287
Total NLD minutes	Mn Mins	3,085	3,722

3.3. Broadband

Metric	Unit	Qtr ended 30/6/06	Qtr ended 30/9/06
Circles operational	Nos	18	18
Towns active (wireline only)	Nos	30	30
Access lines	Nos	322,000	425,000
Access line net adds	Nos	66,000	103,000
ARPL	Rs/line	2,618	2,420
Buildings directly connected	Nos	180,759	269,676

4. Management Discussion and Analysis

4.1. Key Corporate Developments

4.1.1. Completion of Corporate Reorganization

Reliance Communications completed its corporate reorganization in a record period of less than six months from the date of Board approval. Post the reorganization, Reliance Communications Limited has become the major operating entity for the entire telecom business of the Reliance ADA Group.

Reliance Communications and its wholly owned subsidiaries now own 100% of the networks, facilities, licenses and properties used in its business. This includes the nationwide CDMA and GSM wireless networks, the national and intra-city fibre-optic networks, the FLAG and FALCON global submarine cable systems, the Reliance World retail chain, and the internet data centers, network operating centers, and other facilities used in the Company's telecom businesses.

According to the terms of the reorganization, Reliance Communications has allotted 821,484,568 equity shares of Rs 5 each to the Promoter group for relinquishment of their shares in the main operating companies, namely, Reliance Infocomm Limited ("RIC"), Reliance Communications Infrastructure Limited ("RCIL") and Reliance Telecom Limited ("RTL") and other companies forming part of the Scheme of Amalgamation and Arrangement ("the Scheme"). Following this allotment, the equity share capital of the Company stands increased to 2,044,614,990 equity shares of Rs 5 each aggregating Rs 10,223.1 million. The reorganization did not involve any cash transactions.

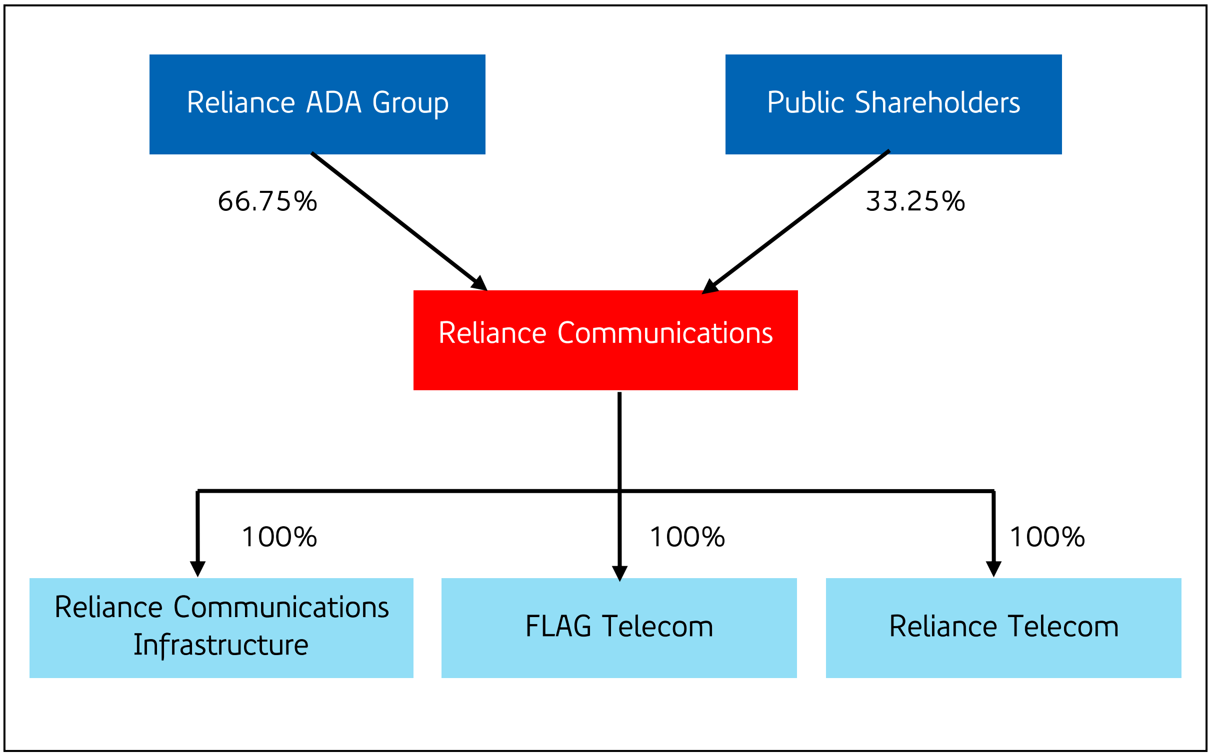
Post the reorganization, based on the shareholding pattern at September 30, 2006, the shareholding pattern of the Company is as follows:

Category	No. of shares held	Shareholding (%)
Reliance ADA Group (Promoters)	1,364,821,460	66.75%
Domestic Institutions / Mutual Funds	131,413,857	6.43%
Foreign Investors – FIIs, NRIs, GDRs and others	298,012,393	14.58%
Public	250,367,280	12.24%
Total	2,044,614,990	100.00%

Note: The Reliance ADA Group's shareholding includes an aggregate of 26,760,237 shares also purchased through secondary market transactions during the quarter under review.

Further, the reorganization has enabled a seamless transition to a simple and transparent corporate structure that affords significant advantages to the Company, aligning the interests of the Promoter group with that of over 2 million shareholders.

In accordance with the approved Scheme, the erstwhile RIC has been merged fully with Reliance Communications Limited and has become an operating division, the network division of RCIL has been merged with Reliance Communications Limited, and RCIL, RTL and FLAG have become wholly owned direct subsidiaries of Reliance Communications Limited. In addition, Reliance Communications has acquired the 134 acre Dhirubhai Ambani Knowledge City (DAKC) complex, and several other properties used in its businesses, which were previously privately owned. The post reorganization structure has placed Reliance Communications in a favourable position from the standpoint of resource mobilization, transparency, and valuations.



4.1.2. Inauguration of FALCON Cable

On September 5, 2006, our FALCON cable system was inaugurated, with the first call between Thiru Dayanidhi Maran, Hon'ble Union Minister of Communications and IT, and Dr. Tarek Kamel, Minister of Communications and IT, Egypt.

The FALCON cable is an 11,500 route kilometers, 2.56 terabit system. It directly connects India and 11 countries in the Middle East, East Africa and the Mediterranean to the rest of the world through the FLAG Global Network. It is the only gateway to every country in the Gulf region.

The FALCON cable was built at a cost of approximately US$400 million. The project was completed 4 months ahead of schedule and 20% under envisaged project cost. It is the largest private cable system to be constructed in the past 5 years.

Demand for global connectivity in the region served by FALCON is growing at a very high rate. The markets are severely under-served by existing networks. The FALCON cable de-bottlenecks these markets. Our pre-sales initiatives have resulted in an overwhelming response and are an encouraging indicator of future prospects. Furthermore, FALCON is enabling us to develop new global business opportunities with our major carrier landing partners in the region.

With the addition of FALCON, FLAG Global Network is the first and only global network of this scale to provide integrated connectivity on one seamless network to the three highest growth regions in terms of international bandwidth demand, namely India, the Middle East, and China.

Landing Countries

- Bahrain
- Egypt
- India
- Kuwait
- Maldives
- Oman
- Qatar
- Saudi Arabia
- Sudan
- U.A.E.
- Yemen

4.1.3. Status of FLAG Arbitration Against VSNL

Pursuant to the Award given by the International Court of Arbitration of ICC, FLAG has carried out an upgrade of its FLAG Europe-Asia cable capacity at VSNL's cable landing station by adding an initial 10 gigabytes of capacity (twice its previous capacity). This upgrade from Mumbai to Suez in Egypt will provide additional capacity, diversity of cable system, and landing station protection for FLAG's customers in India.

FLAG has approached the Tribunal for determination of reasonable and cost-based cable landing station access charges and for setting a timetable for determination of damages.

VSNL has challenged the Arbitration Award in the Netherlands. This action of VSNL is designed to delay the implementation of the Award. In FLAG's view, the writ has been filed by VSNL in the Netherlands with the objective of getting the Award reviewed on the merits, which is not permitted under the laws of the Netherlands.

4.1.4. Co-location Agreements for Sharing of Infrastructure

Reliance Communications has entered into agreements with several wireless operators for sharing of infrastructure. These agreements will facilitate faster roll out of our wireless network and lower our capex costs. In addition, we would earn income from providing co-location facilities. We are in discussions with further operators to establish similar co-location agreements.

4.1.5. Reliance Communications GDR Listed on Luxembourg Stock Exchange

GDRs of Reliance Communications, issued as per the Scheme of Arrangement of Reliance Industries Limited with the Company, were listed on the Luxembourg Stock Exchange on August 3, 2006.

4.2. Results of Operations for the Quarter ended September 30, 2006

4.2.1. Reliance Communications (Consolidated)

Revenues, Net Revenues

During the quarter ended September 30, 2006, the Company earned total revenues of Rs 35,260 million, compared with Rs 32,501 million in the prior quarter (+8.5%). Revenues from the wireless segment contributed 60% of total revenues before inter segment eliminations.

Net revenues, which comprise revenues after deducting license fees and access charges, were Rs 26,192 million, growth of 12.8% over the prior quarter.

Operating Expenses

During the quarter ended September 30, 2006, the Company incurred total operating expenses of Rs 21,736 million, representing 61.6% of total revenues. Operating expenses comprise Rs 9,068 million towards license fees and access charges (25.7% of total revenues), Rs 4,333 million towards network operations, Rs 2,271 million towards employees, and Rs 6,064 million towards selling, general, and administrative costs (in aggregate, 35.9% of total revenues).

Total operating expenses increased by 6.3% compared with the prior quarter.

License fees and access charges (which are predominantly variable in nature and linked directly to our revenue and traffic level and pattern) decreased by 2.3%. This was the result of increases in on-net traffic as well as augmentation of our Points of Interconnect for direct connectivity.

Operating expenses, net of license fees and access charges, increased by 13.5% compared with the prior quarter. The majority of the increase in operating expenses, net of license fees and access charges, was due to an increase in SG&A. SG&A is in part a variable cost linked to our rate of customer acquisitions. Accordingly, such costs were higher mainly due to the increase in the number of wireless customers added during the quarter. Network operations increased as a result of network expansion, while employee costs decreased as a proportion of revenues.

EBITDA

During the quarter ended June 30, 2006, the Company had an EBITDA of Rs 13,524 million, growth of 12.1% compared with the prior quarter. The EBITDA margin for the quarter ended September 30, 2006 improved to 38.4% (37.1% in prior quarter). Higher EBITDA margins were achieved in all of our business segments.

Depreciation and Amortization

During the quarter ended September 30, 2006, the Company had depreciation and amortization expenses of Rs 6,237 million (Rs 5,514 million in the prior quarter). The increase in our depreciation and amortization expenses was due to an increase in capitalized fixed assets, which had been put to use during the quarter and in the later part of the prior quarter.

Finance Charges

Net finance charges for the quarter ended September 30, 2006 were Rs 53 million (Rs 999 million in the prior quarter). The decrease in net finance charges resulted mainly from positive foreign currency conversion adjustments and lower net interest charges as a result of lower net debt levels.

Profit Before Tax, Extraordinary Item

The profit before tax and extraordinary item for the quarter ended September 30, 2006 was Rs 7,234 million, an increase of 30.4% compared with the prior quarter.

Regulatory authorities may require verification or re-verification of all wireless customers. We estimate the cost of such an exercise in a full year at Rs 600 million and accordingly on a conservative basis an amount of Rs 150 million has been provided for in the quarter ended September 30, 2006 and in the quarter ended June 30, 2006 so as to meet the costs of any such exercise. This amount is classified as an extraordinary item.

Net Profit

The provision for tax for the quarter ended September 30, 2006 was Rs 61 million (Rs 272 million in the prior quarter).

The net profit after tax for the quarter ended September 30, 2006 was Rs 7,023 million, growth of 37.0% over the prior quarter.

Balance Sheet

As at September 30, 2006, the Company had total assets (excluding cash and cash equivalents) of Rs 365,084 million and total liabilities (net of cash and cash equivalents) of Rs 184,699 million. The difference of Rs 180,385 million was on account of stockholders equity of Rs 180,286 million and minority interest of Rs 99 million.

The Company had net debt of Rs 20,578 million, a reduction of Rs 3,832 million compared with the prior balance sheet date of June 30, 2006. Our net debt to annualized EBITDA ratio fell to 0.38 times from 0.51 times and our net debt to stockholders equity ratio fell to 0.11 times from 0.20 times.

Capital Expenditure

During the quarter ended September 30, 2006, the Company incurred capital expenditure of Rs 19,458 million, of which 77% was in our Wireless segment, 19% was in our Global segment, and 1% was in our Broadband segment.

4.2.2. Wireless Segment

Customer Acquisition, Churn

As at September 30, 2006, the Company had 25,979,332 wireless customers on its network, representing a market share of 20.5% of the All-India wireless market. Out of our total wireless customers, 23,020,847 were on the CDMA platform (88.6% of total wireless customers) and 2,958,485 were on the GSM platform. Out of our total wireless customers, 81.4% were pre-paid.

During the quarter ended September 30, 2006, we added (net) 3,457,003 wireless customers, a market share of 19.9% of All-India wireless customer net additions (17.6% in the prior quarter). This was our highest ever number of wireless customer additions in a quarter and represents an increase in net additions of 49.6% over the prior quarter. Within our GSM Circles, we added 641,714 GSM wireless customers, an increase in net additions of 55.4% over the prior quarter.

In the Circles where we offer both CDMA and GSM based wireless services, our combined market share of wireless customer net additions was 33.0% (27.3% in the prior quarter). 43% of our wireless customer net additions in these Circles were on the CDMA platform and 57% were on the GSM platform.

Our competitiveness in wireless customer acquisition was enhanced by the steps that we have taken to further strengthen our distribution network, handset range, and branding.

There are now over 90,000 retail outlets in India carrying Reliance CDMA handsets, anchored by over 1,650 branded Reliance World stores in more than 700 towns. We have broadened our handset range from 15 to 22, including an attractive range of handsets with color displays. We have also introduced new bundled offerings with Nokia CDMA handsets. The steps we have taken to invigorate our brand are paying dividends, with our brand ranking strengthening month on month. Reliance Mobile is the most preferred wireless brand in India.

While our wireless customer growth rate has accelerated, we have also enhanced our wireless customer retention. Our churn rate in the quarter ended September 30, 2006 across our wireless customer base decreased to 1.9% (from 2.6% in the prior quarter). During the prior quarter, we re-balanced certain schemes to enhance yield per minute. This resulted in a temporary increase in churn. With completion of this exercise, our churn has fallen to below prior levels.

Out of our total wireless customer net additions, 94.6% were pre-paid, compared with 80.0% in the prior quarter. In the prior quarter, the proportion of pre-paid mobile customer net additions was temporarily impacted by stricter customer verification procedures and churn due to scheme re-balancing as described above.

ARPU, Minutes of Use, Revenue per Minute, Non-voice Revenue

Total wireless minutes of use on our network aggregated 33.52 billion during the quarter ended September 30, 2006, growth of 6.6% over the prior quarter. We successfully maintained our average revenue per minute at Rs 0.77, the same level as in the prior quarter.

Our overall wireless ARPU in the quarter ended September 30, 2006 was Rs 354, a decrease of 6.6% compared with the prior quarter. Our net ARPU (net of license fees and access charges) was Rs 247, a decrease of 4.6%. The blended monthly minutes of use across our wireless customer base in the quarter ended September 30, 2006 decreased to 461 minutes per customer from 491 minutes per customer.

Users of our wireless multimedia services increased to 8.1 million in September 2006. We currently have an installed base of over 18 million multimedia enabled handsets which we can serve over the Reliance Mobile World platform at no incremental upgrade cost for either the customer or ourselves. Non-voice revenue increased as a proportion of overall wireless revenue to 6.3% (6.2% in prior quarter). Caller ring back tones were launched during the quarter with rapid uptake of this service by our customers.

Revenues, Net Revenues, EBITDA, EBIT

Revenues for the quarter ended September 30, 2006 were Rs 25,744 million, an increase of 5.9% over the prior quarter. Net revenues for the quarter ended September 30, 2006, were Rs 17,998 million, an increase of 8.8% over the prior quarter.

EBITDA during the quarter was Rs 9,294 million, growth of 6.2% over the prior quarter. The EBITDA margin improved to 36.1% from 35.7%. EBIT during the quarter was Rs 5,131 million, compared with Rs 5,144 million in the prior quarter.

Capital Expenditure

The cumulative investment in our wireless business to September 30, 2006 has been Rs 170,100 million. Investment in the quarter ended September 30, 2006 was Rs 14,990 million (compared with Rs 8,529 million in the prior quarter). We increased our investment in anticipation of continued strong momentum in customer acquisitions.

4.2.3. Global Segment

ILD/NLD Minutes of Use

ILD minutes of use in the quarter ended September 30, 2006 totaled 1,287 million minutes, growth of 6.0% over the prior quarter.

In an increasingly competitive wholesale ILD market, we maintained our leadership with a market share of over 40%. While continuing to grow the business, our focus has been on containing the reduction in inbound settlement rates and enhancing margins. We are also developing new revenue streams by growing our presence in the ILD transit segment and by readying innovative new services for launch.

In the retail ILD market, we continued to experience strong growth in our overseas Reliance India*Call* franchise. Active customers have now crossed the 800,000 threshold. We were able to maintain Reliance India*Call* rates and traffic volumes, despite competitive pressure. We have successfully introduced an enterprise product based on the Reliance India*Call* platform and have enhanced our Reliance World*Call* to 170 countries from the United States, Canada, and the UK. We have launched Reliance India*Call* in Australia and will be expanding to several new countries where there are significant non-resident Indian populations in the current and next quarter.

NLD minutes of use in the quarter ended September 30, 2006 totaled 3,722 million minutes, growth of 20.6% over the prior quarter. A contributory factor to this growth has been a substantial increase in the volume of traffic from external wholesale customers.

We have augmented the number of Points of Interconnect (PoI) on our NLD network to over 800 – far more than any other private sector operator. As a result, we have been able to increase the proportion of traffic carried on our own network, thereby minimizing carriage charges payable to other operators.

IRUs, Leased Circuits, Internet Bandwidth, Managed Data Services

New contract values for sales of capacity and service by FLAG once again reached a record level in the quarter ended September 30, 2006, driven by demand for connectivity into India, China and East Asia, and the Middle East.

The FLAG Global Network has been enhanced with the inauguration of the FALCON cable on September 5, 2006. FALCON is an 11,500 route kilometers, 2.56 terabit cable system. It directly connects India and 11 countries in the Middle East, East Africa and the Mediterranean to the rest of the world through the FLAG Global Network. It is the only gateway to every country in the Gulf region.

Demand for global connectivity in the countries served by FALCON is growing at a very high rate. The markets are severely under-served by existing networks. The FALCON cable de-bottlenecks these regions. Our pre-sales initiatives for FALCON have met with an overwhelming response. Furthermore, FALCON is enabling us to develop new global business opportunities with our major carrier landing partners.

Pursuant to the Award given by the International Court of Arbitration of ICC, FLAG has carried out an upgrade of its FLAG Europe-Asia cable capacity at VSNL's cable landing station by adding an initial 10 gigabytes of capacity (twice its previous capacity). This upgrade from Mumbai to Suez in Egypt will provide additional capacity, diversity of cable system, and landing station protection for FLAG's customers in India.

Strategic initiatives to leverage our carrier customer relationships to sell increased leased circuits, internet bandwidth and managed data services to enterprises globally contributed to revenue growth.

Revenues, Net Revenues, EBITDA, EBIT

Revenues for the quarter ended September 30, 2006 were Rs 13,158 million, an increase of 6.6% compared with the prior quarter. Net revenues for the quarter ended September 30, 2006 were Rs 7,283 million, a 1.5% increase over the prior quarter.

EBITDA during the quarter was Rs 3,199 million, growth of 12.6% over the prior quarter. The EBITDA margin was 24.3%, compared with 23.0% in the prior quarter.

EBIT grew by 14.9% to Rs 1,785 million.

Capital Expenditure

The cumulative investment in this business to September 30, 2006 has been Rs 83,820 million. Investment in the quarter ended September 30, 2006 was Rs 3,670 million, mainly towards the construction of FALCON.

4.2.4. Broadband Segment

Customers

Our enterprise business made significant progress in the development of its customer franchise. We now count some 750 of the Top 1,000 enterprises in India as our customers. In addition, we have broadened our SME customer base.

We continued to win repeat growth business and up-sell business from the most comprehensive range of products and integrated solutions in the domain of voice and data networks and IT infrastructure services. This combination is a major driver of our higher market share of enterprise communications expenditure.

We maintained our leadership in the highest growth product areas of MPLS-VPN, Centrex and IDC services. With international bandwidth now becoming available on our FALCON and FLAG Europe-Asia cable systems, we are gearing up to re-launch our international product portfolio for enterprises in India.

Towns Active, Buildings Connected, Access Lines, ARPL

We continued to focus on directly connecting buildings in the Top 30 cities in India. The number of buildings on-net increased to 269,676 from 180,759 at the end of the prior quarter, growth of 49.2% in building connections. We have geared up our construction activity, leveraging the existing fiber optic cables in the ground, to accelerate the roll out.

The number of access lines increased to 425,000 from 322,000 at the end of the prior quarter. The take up rate for our services has been consistently strong in the quarters following the activation of each building on-net.

Broadband segment revenues divided by the number of access lines (ARPL) decreased by 7.5% to Rs 2,420 as compared with prior quarter. As our broadband business is currently mainly serving enterprises, the revenue per line reflects the total portfolio of services and solutions that we are delivering to our customers.

IPTV

We have successfully completed pilot projects for IPTV and are encouraged by the customer response for entertainment and content service delivery in a fully interactive and on-demand format. Our unique fiber optic Ethernet ring network in the last mile and 10 gigabyte, full IP Metro network is ideally suited for bandwidth intensive multimedia applications.

Revenues, Net Revenues, EBITDA, EBIT

Revenues for the quarter ended September 30, 2006 were Rs 2,710 million, an increase of 19.3% over the prior quarter. Net revenues for the quarter ended September 30, 2006 were Rs 2,331 million, an increase of 24.5% over the prior quarter. Revenues were earned predominantly from large and medium sized enterprise customers.

EBITDA during the quarter was Rs 1,215 million, growth of 37.7% over the prior quarter. The EBITDA margin was 44.8%, compared with 38.8%, as profitability of the business improved following the incurrence of start-up costs.

EBIT grew by 64.2% to Rs 851 million.

Capital Expenditure

The cumulative investment in this business to September 30, 2006 has been Rs 26,290 million. Investment in the quarter ended September 30, 2006 was Rs 270 million. The expansion of our enterprise business extensively leverages existing infrastructure.

5. Basis of Presentation of Financial Statements

5.1. Reporting Periods

The financial year end of Reliance Communications Limited is March 31. Each financial year ("FY") is referred to by the calendar year in which the particular financial year end occurs.

The financial year end of the Company was previously December 31. In respect of the year ended December 31, 2005, the financial year was a 9 month period commencing April 1, 2005 and ending December 31, 2005. In respect of the financial year ending March 31, 2007, the financial year will be a 15 month period commencing January 1, 2006.

5.2. Consolidated and Segment Financial Results

5.2.1. Revenues

Revenues of the Company have been reported in the following manner:

- Consolidated Revenues and Segment Gross Revenues

  Consolidated revenues of the Company have been classified as "Services and Sales" revenue. This represents revenues earned from the provision of services and from the sale of network infrastructure on an IRU basis. Services and Sales revenue excludes revenue from the sale of equipment as described in Section 5.2.4 below.

  For the purposes of business segment reporting, revenues have been classified under three segments namely "Wireless", "Global", and "Broadband". The lines of business included in each segment and the basis of segment revenue reporting is described in Section 5.3 below. Revenue earned from operating activities not included in these segments (as defined) is shown as "Other Income" under "Others" in the segment analysis.

- Elimination of Inter Segment Revenues

  Revenues for each business segment are reported at gross level where inter segment revenue is also included. Hence, revenue of one segment, from inter segment source, is reported as the expense of the related segment. Elimination takes place in determining consolidated revenues for the Company.

  For the purpose of determining transfer pricing between segments, open market wholesale rates for comparable services or, where applicable, rates stipulated by the regulatory authorities have been adopted.

5.2.2. Net Revenues by Segment

"Net Revenues" represent revenues earned less direct variable operating expenses in the nature of: (1) access deficit charges (ADC), revenue share (including levies for Universal Service Obligation), and spectrum fees (referred to collectively as "License Fees"); and (2) charges for access, carriage, interconnection, and termination (referred to collectively as "Access Charges").

Expenses included under License Fees are currently incurred as a percentage of adjusted gross revenue. Expenses included under Access Charges, including ADC, are currently incurred either at rates stipulated by the regulatory authorities on the basis of percentage of adjusted gross revenue, or on the basis of fixed or ceiling cost per minute, or are determined by commercial negotiation with other carriers and between our business segments, as appropriate.

License Fees and Access Charges are disclosed in aggregate as part of the classification of "Operating Expenses" in the consolidated statement of operations. Net Revenues are reported for each business segment.

5.2.3. Operating Expenses

Operating expenses of the Company have been reported in the following manner:

- Consolidated and Segment Gross Operating Expenses

  Consolidated operating expenses of the Company have been classified under four categories of costs, namely "License Fees and Access Charges", "Network Operations", "Employees", and "Selling, General, & Administrative".

- Elimination of Inter Segment Expenses

  Principles, as stated in 5.2.1 (b) above, have been followed for reporting gross operating expenses of each segment and elimination of such expenses in determining consolidated EBITDA for the Company.

5.2.4. Equipment Sales (Net of Costs)

The Company is engaged in the marketing and distribution of end user telecom equipment, predominantly consisting of wireless handsets and accessories. This activity is carried out as part of our overall strategy for the wireless business.

Equipment sales, net of costs related to such equipment, are grouped in "SG&A" under "Operating Expenses" in the consolidated results of operations.

Equipment sales, net of costs, are grouped in "Other Expenses" under "Others" for the purposes of segment reporting.

5.3. Composition of Segments

Financial performance of the Company has been reported under the following three business segments:

- Wireless
- Global
- Broadband

Financial results by segment include all products and services covered by the individual segment as described below. Operating activities not included in the segments (as defined below) are grouped under "Others".

5.3.1. Wireless

The Wireless segment functions in a retail mode. Wireless services are offered on both CDMA and GSM technology platforms. Wireless services consist mainly of the following:

- Mobile services for individuals and corporate customers, including local and long distance voice, messaging, wireless internet access, wireless multimedia and value added services. Services are offered on both pre-paid and post paid bases.

- Fixed wireless phone and terminal services are mainly for residential and SME customers, including local and long distance voice, messaging, wireless internet access, wireless multimedia, wireless data VPN, and value added services. Services are offered on both pre-paid and post paid bases.

- Public calling offices and coin collection boxes for local and long distance voice using fixed wireless phones and terminals. Service is provided to independent retail operators of such facilities on a pre-paid basis.

Assets allocated to this business segment include: radio equipment (base trans-receiver stations (BTSs), microwave towers, antennas, mobile switching centers (MSCs), and related electronics, software and systems for operations); intra-city access networks (ducts and optical fiber) other than in 29 Metro cities; utilities, servers, customer premises equipment, and license fees.

5.3.2. Global

The global segment functions in a wholesale mode, except for the provision of virtual calling card services. It provides the following services to the wireless and broadband segments of RCOM on an inter segment basis and to other telecom companies (on a carrier's carrier basis) and enterprises in India and across the globe:

- National inter-circle (NLD) carriage services for voice, data, and internet.
- International long distance (ILD) carriage services for voice, data, and internet.
- IRUs and leased circuits for international voice and data connectivity through submarine cable systems, together with cable restoration and maintenance services.
- International managed data services, including IP-VPN.
- Virtual calling card services provided by overseas operating units in USA, UK and Canada in a retail mode to individual customers.

Intra segment revenues between the NLD and ILD product groups and FLAG are eliminated within the segment.

NLD and ILD assets are allocated to this segment. NLD assets include: transport equipment and electronics; transmission networks (ducts and optical fiber) connecting various Media Convergence Nodes (MCNs) across all circles; buildings, utilities, and license fees. ILD assets include: dedicated ports and switches, electronics, infrastructure at various points of presence and other cable systems not owned and operated by the Company. In addition, the submarine cable systems, cable landing stations, switching equipment for PoPs and associated facilities of FLAG (which includes the FALCON cable system), are included in this segment.

5.3.3. Broadband

All services provided through wireline connections and involving the provision of IT infrastructure are covered under this segment. Services are provided across various customer groups including residential, SMEs, and large corporates. Products and services include the following:

- <u>Voice Products</u>: E1 DID, Centrex, PBX trunks, audio conferencing, and fixed line phones.
- <u>Data products</u>: VPN, leased lines, IPLCs, Ethernet, video conferencing, internet data centre (IDC) services (including managed hosting, applications, storage, and disaster recovery), and broadband internet.

Assets allocated to this segment include: in-building wiring and building access networks from building access nodes in all locations where active; intra-city access networks (ducts and optical fiber) in 29 Metro cities; internet data centers; digital loop carriers (DLC), routers, modems and related electronics; customer premises equipment (CPE) and license fees.

5.3.4. Others

Others comprise operating activities not included in the segments as defined above. These activities include retailing (Reliance World), property leasing, investments, and equipment distribution and marketing.

As described in Section 5.2.4 above, equipment sales are stated net of costs and grouped under "Other expenses". Other expenses also include unallocated corporate expenses.

Assets shown under Others mainly comprise properties owned by the Company, including the Dhirubhai Ambani Knowledge City, and property and fittings (including electronics for video-conferencing and other digital services) used by Reliance World retail outlets.

6. Financial Statements

Unaudited financial results for the quarter ended September 30, 2006 as per Indian GAAP. An explanation of the basis of presentation is set out in Section 5. In the tables below, "Qtr ended 30/9/06" refers to the three month period ended September 30, 2006 and "Qtr ended 30/6/06" refers to the three month period ended June 30, 2006.

6.1. Consolidated Results of Operations

(Rs Million, except ratios)

Particulars	Qtr ended 30/6/06	Qtr ended 30/9/06
Total revenues	32,501	35,260
Services and sales	32,501	35,260
Total operating expenses	20,439	21,736
License fees and access charges	9,286	9,068
Network operations	3,816	4,333
Employees	2,157	2,271
SG&A	5,180	6,064
EBITDA before extraordinary item	12,062	13,524
Finance charges (net)	999	53
Depreciation / amortization	5,514	6,237
Profit before tax and extraordinary item	5,549	7,234
Extraordinary item (note 2)	150	150
Profit before tax	5,399	7,084
Provision for tax	272	61
Net profit after tax	5,127	7,023
Ratios		
EBITDA margin (%)	*37.1%*	*38.4%*
Net profit margin (%)	*15.8%*	*19.9%*

Note: Regulatory authorities may require verification or re-verification of all wireless customers. The company estimates the cost of such an exercise in a full year at Rs 600 million and accordingly on a conservative basis an amount of Rs 150 million has been provided in the quarter ended September 30, 2006 and in the quarter ended June 30, 2006 so as to meet the costs of any such exercise.

6.2. Consolidated Balance Sheet

(Rs Million)

Particulars	As at 30/9/06
ASSETS	
Current assets	
Inventories	3,970
Debtors	19,509
Other current assets	1,434
Loans and advances (note 1)	24,551
Total current assets (excluding cash and cash equivalents) (note 2)	49,464
Fixed assets	
Gross block	327,706
Less: Depreciation	60,569
Net block	267,137
Capital work-in-progress	46,121
Goodwill	2,237
Total fixed assets	315,495
Investments	125
Total assets	365,084
LIABILITIES AND STOCKHOLDERS EQUITY	
Stockholders equity	
Share capital	10,223
Reserves and surplus	170,063
Total stockholders equity	180,286
Minority interest	99
Current liabilities and provisions	
Current liabilities (note 3)	117,885
Provisions	46,236
Total current liabilities and provisions	164,121
Debt	
Secured loans	
Foreign currency loans	21,426
Rupee loans	47,000
Unsecured loans	
Foreign currency loans	46,346
Rupee loans	8,888
Less: Cash and cash equivalents (note 2)	103,082
Net debt	20,578
Total liabilities and stockholders equity	365,084

Notes to the Consolidated Balance Sheet

1. Loans and advances includes: advances in cash or kind or for value to be received (net of provision) of Rs 13,930 million and deposits of Rs 10,620 million.

2. Total current assets excludes cash and cash equivalents, which are netted against debt for presentation purposes. Cash and cash equivalents includes short term investments, cash and bank balances, including fixed deposits.

3. Current liabilities includes: advances from customers and deferred revenue of Rs 33,855 million, sundry creditors of Rs 44,161 million, buyers credit of Rs 18,880 million, and other categories of liabilities totaling Rs 20,989 million.

6.3. Consolidated Statement of Cash Flows

(Rs Million)

Particulars		Qtr ended 30/6/06	Qtr ended 30/9/06
Cash flows from operating activities:			
Net profit/(loss)	A	**5,127**	**7,023**
Add: Non cash/non operating items	B	**6,906**	**6,501**
Depreciation and amortization		5,514	6,237
Provision for doubtful debts		247	358
Finance charges (net)		999	53
(Profit)/loss on sale of assets/investments		(276)	(358)
Tax expense/(income)		272	61
Extraordinary items		150	150
Cash generated from operations before working capital changes	A+B	**12,033**	**13,524**
(Increase)/decrease in working capital		4,189	5,635
Cash generated from operations		**16,222**	**19,159**
Tax paid		(746)	(230)
Net cash provided/used by/in operating activities	C	**15,476**	**18,929**
Cash flows from investing activities:			
(Purchase)/sale of property, plant, and equipment		(11,081)	(16,090)
(Purchase)/sale of investments		(1)	0
Finance charges (net)		434	(705)
Net cash provided/used by/in investing activities	D	**(10,648)**	**(16,795)**
Cash flows from financing activities:			
Increase/(decrease) in borrowings		29,799	6,283
Net cash provided/used by/in financing activities	E	**29,799**	**6,283**
Cash and cash equivalents:			
Beginning of the period	F	60,038	94,665
End of the period	C+D+E+F	94,665	103,082

Note: Previous quarter figures are regrouped and reclassified wherever necessary.

7. Accounting Policies

Set out below are the significant accounting policies to the Unaudited Consolidated Statement of Operations and the Consolidated Statement of Operations and the Consolidated Balance Sheet.

7.1. Principles of Consolidation

The Scheme of Amalgamation and Arrangement (Scheme) for the amalgamation of Reliance Infocomm Limited, Ambani Enterprises Private Limited, Reliance Business Management Private Limited, Formax Commercial Private Limited, Reliance Communications Technologies Limited, Reliance Software Solutions Private Limited, Reliance Communications Solutions Private Limited and Panther Consultants Private Limited ("Transferor Companies") and demerger of the Network Division of Reliance Communications Infrastructure Limited with the Company, as approved by the High Courts of Bombay and Gujarat became effective from September 12, 2006. In terms of the said Scheme, the Company has allotted 821,484,568 equity shares of Rs 5 each. Upon said allotment, the paid up equity share capital of the Company has increased to Rs 10,223.1 million divided into 2,044,614,990 equity shares of Rs 5 each. Further, as an integral part of the said Scheme, Reliance Communications Infrastructure Limited, Reliance Telecom Limited, Flag Telecom Group Limited and certain other companies became wholly owned subsidiaries of the Company.

Consolidation has been carried out in compliance with the applicable Accounting Standards, viz., AS 21 and AS 23, issued by the Institute of Chartered Accountants of India.

7.2. Other Significant Accounting Policies

7.2.1. Basis of Preparation of Financial Statements

The financial statements have been prepared under the historical cost convention in accordance with the generally accepted accounting principles in India and the provisions of the Companies Act, 1956.

7.2.2. Use of Estimates

The presentation of financial statements requires estimates and assumptions to be made that affect the reported amount of assets and liabilities on the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Difference between the actual results and estimates are recognized in the period in which the results are known/materialized.

7.2.3. Fixed Assets

- Fixed assets are stated at cost net of CENVAT less accumulated depreciation, amortization and impairment loss, if any. Cost of fixed assets received pursuant to merger of erstwhile Reliance Infocomm Limited and demerger of the Network Division of Reliance Communications Infrastructure Limited in accordance with the Scheme is based on their fair value as on the Appointed Date.

- All costs including financing cost until commencement of commercial operations, net charges of foreign exchange contracts and adjustments arising from exchange rate variations, relating to borrowings attributable to fixed assets, are capitalized.

- Expenses incurred relating to projects prior to commencement of commercial operation are considered as project development expenditure and shown under capital work-in-progress.

- In respect of operating leases, rentals are expensed with reference to lease terms and other considerations in compliance with the provisions of the AS 19 issued by The Institute of Chartered Accountants of India, except for rentals pertaining to the period up to the date of commencement of commercial operations, which are capitalized.

- In respect of finance leases, the lower of the fair value of the assets and present value of the minimum lease rentals is capitalized as fixed assets with corresponding amount shown as liabilities for leased assets in compliance with the provisions of the AS 19 issued by The Institute of Chartered Accountants of India. The principal component in the lease rental in respect of the above is adjusted against liabilities for leased assets and the interest component is recognized as an expense in the year in which the same is incurred except in case of assets used for capital projects where it is capitalized.

- Entry fees paid for telecom licenses and indefeasible right of connectivity are stated at cost for acquiring the same less accumulated amortization. These, being intangible assets, are classified as fixed assets.

7.2.4. Depreciation / Amortization

- Depreciation on fixed assets is provided on straight line method at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956 except in cases of cable systems, telecom electronic equipment, customer premises equipment and certain other assets for which useful life has been considered based on technical estimation. Depreciation is net of the amount adjusted from Provision for Business Restructuring in accordance with the Scheme.

- Depreciation on assets taken on finance lease is provided over the remaining period of lease from the commencement of commercial operations.

- Leasehold land is depreciated over the period of the lease term.

- Intangible assets, namely entry fees for telecom licenses and indefeasible right of connectivity are amortized equally over the balance period of licenses or indefeasible rights from the date of commencement of commercial services or acquisition.

- The depreciation schedule for various classes of assets is as follows:

Asset Class	Period (Years)
Leasehold Land	Over the lease period
Building	30 & 60
Plant and Machinery	10-20
Furniture and Fixture	15
Office Equipment	20
Vehicles	10

7.2.5. Impairment of Assets

An asset is treated as impaired when the carrying cost of assets exceeds its recoverable value. An impairment loss is charged to the profit and loss account in the year in which an asset is identified as impaired. The impairment loss recognized in prior accounting periods is reversed if there has been a change in the estimate of recoverable amount.

7.2.6. Investments

Investments are classified into long term and current investments. Investments which are intended to be held for more than one year are classified as long term investments and investments which are intended to be held for less than one year, are classified as current investments.

Current investments are carried at lower of cost and quoted/fair value, computed category wise. Long term investments are stated at cost. Provision for diminution in the value of long term investments is made only if such a decline is other than temporary in the opinion of the management.

7.2.7. Inventories

Inventories are valued at lower of cost or net realizable value. Cost of communication devices and accessories and stores and spares are determined on weighted average basis, or net realizable value whichever is less.

7.2.8. Employee Retirement Benefits

Gratuity and leave encashment liability are provided for based on actuarial valuation done at the year end while Company's contributions towards provident fund and superannuation fund are provided on actual contribution basis in accordance with the related stipulation.

7.2.9. Borrowing Cost

Borrowing costs that are attributable to the acquisition or construction of qualifying assets are capitalized as part of the cost of such assets up to the commencement of commercial operations. A qualifying asset is one that necessarily takes substantial period of time to get ready for intended use. Other borrowing costs are recognized as expense in the year in which they are incurred.

7.2.10. Foreign Currency Transactions

- Transactions denominated in foreign currencies are normally recorded at the exchange rates prevailing at the time of the transaction.

- Monetary items denominated in foreign currencies at the year end are restated at year end rates. In case of monetary items, which are covered by forward exchange contracts, the difference between the year end rate and the rate on the date of the contract is recognized as exchange difference and the premium paid on forward contracts has been recognized over the life of the contract.

- Non monetary foreign currency items are carried at cost.

- Any income or expense on account of exchange difference either on settlement or on translation is recognized in the profit and loss account, except in cases where they relate to acquisition of fixed assets in which case they are adjusted to the carrying cost of such assets.

7.2.11. Revenue Recognition

Revenue (income) is recognized as and when the services are performed on the basis of actual usage of the Company's network. Revenue on upfront charges for services with lifetime validity and fixed validity periods are recognized over the estimated useful life of subscribers and specified fixed validity period, as appropriate. The estimated useful life is consistent with estimated churn of the subscribers.

7.2.12. Provision for Doubtful Debts

Provision is made in the accounts for doubtful debts in cases where the management considers the debts to be doubtful of recovery.

7.2.13. Miscellaneous Expenditure

Miscellaneous expenses are charged to profit and loss account as and when they are incurred.

7.2.14. Taxes on Income

Provision for income tax is made on the basis of estimated taxable income for the year at current rates. Tax expenses comprise both current tax and deferred tax at the applicable enacted or substantively enacted rates. Current tax represents the amount of income tax payable/recoverable in respect of the taxable income/loss for the reporting period. Deferred tax represents the effect of timing difference between taxable income and accounting income for the reporting period that originate in one period and are capable of reversal in one or more subsequent periods.

7.2.15. Government Grants

Subsidies provided by Government for providing telecom services in rural areas are netted off against related expenses.

7.2.16. Provisions, Contingent Liabilities and Contingent Assets

Provisions involving substantial degree of estimation in measurement are recognized when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent liabilities are not recognized but are disclosed in the notes. Contingent assets are neither recognized nor disclosed in the financial statements.

8. Glossary

Key Performance Indicators and Financial Terms

Wireless Segment	
Wireless market share	Total wireless customers (CDMA Mobile + GSM Mobile + FWP + Wireless PCO), at the end of the relevant period, divided by All-India wireless customers, at the end of the same period. All-India wireless customer numbers are sourced from industry reports.
Market share of wireless net adds	Wireless customer net additions during the relevant period, divided by All-India wireless customer net additions during the same period.
Wireless ARPU	Computed by dividing total wireless revenue for the relevant period by average customers; and dividing the result by the number of months in the relevant period.
Wireless net ARPU	Computed by dividing net wireless revenue for the relevant period by average customers; and dividing the result by the number of months in the relevant period.
Wireless churn	Computed by taking average monthly wireless disconnections divided by average monthly subscriber base in the relevant period. Churn is expressed as a percentage.
Total wireless minutes of use (MoU)	Sum of all incoming and outgoing minutes used on the wireless access network by all customers in aggregate.
Wireless MoU per customer per month	Total wireless MoU divided by average number of wireless customers on the network in the relevant period. The result is expressed as the average per customer per month.
Wireless revenue per minute (RPM)	Wireless ARPU divided by the average wireless MoU per customer per month.
SMS revenue (% of ARPU)	Comprises both charges for customer to customer messaging services and for applications accessed by customers over the SMS platform. SMS revenue is divided by wireless revenue, and expressed as a percentage of ARPU.
Non-voice revenue (% of ARPU)	Comprises SMS revenue, charges for applications accessed by customers over the wireless multimedia platform, wireless internet access services, wireless data VPN, and other value added services. Non-voice revenue is divided by wireless segment revenue, and expressed as a percentage of ARPU.
Wireless multimedia users	The number of unique wireless customers who have accessed applications over the wireless multimedia platform in the last month of a given quarter.
Wireless internet users	Average number of unique wireless customers who have used wireless internet access services during a given quarter.

Global Segment	
ILD minutes	Total of incoming and outgoing international long distance minutes to/from India carried by the Global business.
NLD minutes	Total of national long distance minutes carried by the Global business. Note: NLD minutes include the domestic carriage of ILD minutes where applicable in accordance with TRAI accounting stipulations.
LD net revenue per minute	Computed by dividing the net revenue of the Global business earned from ILD and NLD voice services for the relevant period by the total ILD and NLD minutes in aggregate during the relevant period.

Broadband Segment	
Buildings directly connected	The number of buildings directly connected to Reliance Communications's own network (either by wireline, fiber optic, or other fixed access technologies) at the end of the relevant period.
Access lines	Number of narrowband and broadband voice and data access lines in use.
ARPL	ARPL (average revenue per line) is computed by dividing total Broadband business revenue by the average number of access lines in use during the relevant period; and dividing the result by the number of months in the relevant period.

Financial Terms	
Net revenue	Total revenue less (1) charges for access deficit, USO levy, revenue share and spectrum fees (referred to as "License Fees") and (2) charges for access, carriage, interconnection and termination (referred to as "Access Charges").
Cash profit from operations	Is defined as the sum of profit after tax, depreciation and amortization.
Investment in projects	Investment in projects comprises net fixed assets, intangible assets, capital work-in-progress, and one time entry fee paid unamortized.