

RELIANCE COMMUNICATIONS LIMITED

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Earnings Conference Call for Quarter ended June 30, 2006

August 1, 2006

Moderator

Good evening ladies and gentlemen. I am Pratibha, the moderator for this conference call. Welcome to the Reliance Communications conference call hosted by JP Morgan. For the duration of the presentation, all participants' lines will be in listen-only mode. After the presentation, the question and answer session will be conducted for participants at the Singapore bridge, followed by question and answer session for participants at WebEx US bridge, and then a Q&A session for participants at WebEx India. I would now like to hand over the call to Mr. Sanjay Chawla. Thank you and over to you, sir.

Sanjay Chawla

Thank you, Pratibha. Good evening ladies and gentlemen. We at JP Morgan are pleased to host this call and welcome you all to this analyst briefing on first quarter fiscal 2007 results of Reliance Communications. We would like to take this opportunity to extend our congratulations to Reliance management on a good set of results. On behalf of all the participants and JP Morgan I would like to thank the senior management for taking the time to be with us on the call today and I would now hand over the call to Daniel Newman at Reliance Center to initiate the proceedings. Over to you, Daniel.

Daniel Newman

Thank you, Sanjay, and a warm welcome to all participants. I think each of you has received our quarterly report, which is posted on our web site www.rcovl.com. Today we have present from Reliance Communication our Chairman, Mr. Anil Dhirubhai Ambani, and the leaders of our three strategic business units, Mr. S.P. Shukla who leads wireless, Mr. Khurana who leads global, and Mr. Prakash Bajpai who leads broadband. Mr. Ambani will begin the call with some key observations about the markets and our business performance, following which our business leaders will summarize the performance of each business. There will then be time for Q&A. The call duration is scheduled for 1 hour. I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that we face. It is now my pleasure to hand over to Mr. Ambani.

Anil Dhirubhai Ambani

Thank you, Daniel. Let me add my own very warm welcome to all the participants on this our first earnings call after the completion of the first full quarter since our listing.

I would first like to talk about market growth.

The Indian telecom market has experienced another quarter of robust growth. In the wireless market, quarterly net adds registered 13.3 million subscribers, which is now up to 80% of the quarterly adds in China. Also in the first 6 months of 2006, the industry has added as many wireless subscribers as we added in the whole of the year 2005. In the long distance voice market, total minutes of long distance traffic grew by 1.8 billion minutes during the quarter to 17.3 billion national and international long distance minutes, the highest ever number of additional minutes in a quarter. In the data market, demand for internet bandwidth continues to increase at an exponential rate. Internet bandwidth increased by 2.5 gigabytes, an increase of nearly 50% in a single quarter. We expect market growth across all segments to accelerate over the next few years.

Moving to the performance of Reliance Communications.

In July, we completed the one-year anniversary of the management transition at Reliance Communications. The initiatives for the past one year involved increased focus within each business area, team strengthening, driving cost efficiency, and better utilization of existing assets and capacity; all this has led to significant growth and improvement in profitability across all our business segments over the year and in this quarter. I personally expect the sustained improvement in profitability and the strong business momentum to continue for the rest of the financial year barring unforeseen circumstances.

The highlights of our financial result in the quarter ended June 30, 2006 are that we achieved:

- ❑ Revenue of roughly US\$ 710 million, an increase of 9.4% over the prior quarter.
- ❑ EBIDTA of US\$ 263 million, an increase of more than 15% over the prior quarter.
- ❑ EBIDTA margin expanded to 37.1% from 35.3% in the prior quarter.
- ❑ Net profit grew by 27.8%.
- ❑ Return on equity stands at 17.3% on an annualized basis.

Our financial statements reflect our conservative and prudent approach and accounting policies, in line with our overall management philosophy. These include amortization of revenue earned from lifetime plans over at least 48 months and provision for one-time regulatory interventions such as customer verification and re-verification.

As at June 30, 2006, our net debt was only US\$ 533 million. Our net debt to equity decreased to 0.20 times from 0.28 times in the prior quarter, and our net debt to EBITDA decreased to 0.51 times on an annualized basis from 0.79 times in the prior quarter. The balance sheet is conservative with ample ability to leverage, if and when required.

In the quarter ended June 30, 2006, our new investment in projects amounted to roughly US\$ 350 million. Our guidance for the current financial year is for capex of about US\$ 1.4 billion and we are on track to meet it.

We are committed to providing the most optimum and best in class products and services for our millions of customers and we are completely technology neutral. Our CDMA and GSM based wireless businesses are experiencing robust growth in terms of customer acquisitions and profitability. We expect this trend to continue.

To quickly talk about the business performance of each of our businesses.

First, wireless

In the wireless segment, our focus was on improving profitability of our existing subscriber base. This is reflected in improvement of our revenue per minute from 0.71 of a rupee to 0.77 on a sequential basis. We were also able to increase our wireless multimedia user base from 6.4 million in March to nearly 8 million in June at no incremental cost to the company.

To talk about our global business.

In the global segment, the capacity constraint being faced by our business in connecting India will now be over. The International Chamber of Commerce has given an arbitration award in favor of Flag Telecom, now a 100% subsidiary of the Company, and against VSNL. This is for upgrading capacity anywhere in the Flag Europe-Asia cable system. The capacity of this cable will be immediately upgraded by 140 gigabytes. In the long distance voice market, we have sustained profits in a challenging competitive environment.

Broadband.

I am happy to state that our comprehensive portfolio of products and solutions, in the space of voice, data, network, and IT infrastructure services, are being increasingly recognized by top Indian corporate - 65% of India's Top 1,000 corporate are now our customers.

To talk about the regulatory environment.

The regulatory environment regarding interconnection regime has improved enabling us to provide services at lower prices to our customer. The spectrum policy regarding 3G is awaited and we expect to see movement over the next 6 to 12 months in terms of having a policy framework hopefully in place.

Corporate reorganization.

The corporate reorganization undertaken with a view to aligning the interest of all stakeholders has now received all the necessary approvals including the shareholders and the respective High Courts of Gujarat and Maharashtra. We expect to implement the corporate reorganization by the end of this quarter. Hopefully, after this quarter we can drop the word *proforma*.

I will now hand over to Mr. S.P. Shukla who leads our wireless business.

S.P. Shukla

Thank you, Mr. Ambani and good day to all the participants.

Our wireless business had a very robust financial performance during the first quarter of the financial year 2006/7, with sequential growth in gross revenues of 15% and EBITDA of 16%. Our EBITDA margins also improved to 36% from 35.7% in the previous quarter.

Subscriber growth.

On subscriber growth front, our subscriber acquisition machinery continues to perform in overdrive. During the first two months of the quarter, in line with our commitment towards the highest standard of corporate governance, we took the issue of subscriber verification very seriously, thereby leading to a slight slow down. However, in June, subscriber acquisitions have bounced back to the 1 million level and the outlook continues to be strongly positive.

Customer profile.

Overall, the quality and profile of our customers is on an up trend. As compared to last quarter, the percentage of pre-paid acquisitions was slightly lower during the quarter under discussion. Our international roaming has begun to show encouraging up trend because of our roll out of enhanced roaming capabilities. Our value added service subscriptions are showing steady increase. Our multimedia users are also registering a significant increase at no extra cost as the seeding of the handsets has already been done. Adjusting for the effects of tariff and plan rebalancing, which we successfully completed in the last quarter, we have been able to maintain our underlying churn rates far below the industry average. All of these are leading to a sticky and better set of subscribers, which is showing a healthy impact on our ARPU, on our revenue per minute, and it augurs well for our future revenues.

Coming to ARPU and usage enhancement.

While in general ARPUs are falling across the industry, we are happy to say that we were able to maintain our ARPUs at last quarter level, which was made possible through two sets of actions: higher usage by our existing and older customers; and, launch of revenue enhancing measures such as on our unique Reliance Mobile World applications, new SMS applications, and very recently CRBT.

Coming to tariff rebalancing and revenue per minute increase.

We were able to achieve significant increase in revenue per minute during the first quarter bucking the industry's declining trend. This was achieved through a tariff rebalancing and simultaneous rationalization of various tariff plans under which we were able to cap free minutes that we offered on Reliance to Reliance calls. Results of this are clearly showing both in our revenue per minute and in our ARPU's.

Several new initiatives were taken during the quarter.

We were able to transparently inform, in fact, we were the first to inform the customer, about the actual time span of lifetime products. Some of our competitors in fact have still not done it. Our 10-year *chota lifetime offer* on Reliance Mobile, which we give at Rs 795, actually has a longer life span than some competitor's lifetime plans.

We took the initiative of launching our Reliance Hello product on fixed wireless on "93" number plans. The 93 number plans enable the customer to roam within the circle. It also gives our customers the option of the lifetime incoming product, which is available today under limited mobility.

Another unique offer that we recently launched was our Reliance Hello Capital plan. Under this plan, people calling on 32 series Reliance Hello products are getting local call rates between the 21 state capitals. This scheme has shown an excellent response.

We have recently introduced CRBT for our customers. We have also pilot launched Home Zone tariffs in West Bengal.

Our acquisition strategy has been based on customer segmentation, and we continue to innovate our products and services targeted at specific customer segments.

Focus areas that will drive growth going forward.

Going forward we will focus on increasing life cycle value of our customers to ensure profitable growth. We will continuously be launching new value added services to drive revenue growth and enhance brand image. We will be re-engineering our customer service delivery organization to serve our customers even better. We will further reduce churn, which is already the lowest in the Indian industry, and further enhance revenues.

I will now hand over to Mr. Khurana to talk about our global business.

B.D. Khurana

Thank you. Good day to all.

Key highlights of the quarter ended June 30, 2006 for the global business were contribution of gross revenue of Rs 12,340 million, net revenue of Rs 7,174 million, EBITDA of Rs 2,842 million, and EBIT of Rs 1,554 million.

The global business witnessed a robust profitable growth in both EBITDA and EBIT. The EBITDA margin grew to 23%, that is 4.4% percentage points improvement over the previous quarter and EBIT grew by 15% over the previous quarter.

Our voice business continued to grow. While unit price came under pressure, the net revenues were sustained through volume growth. The Reliance India*Call* customer base and traffic continued to expand during the quarter. Reliance Communications continues to retain its No. 1 position in the international long distance voice business with over 40% market share. Voice offering of Reliance India*Call* was extended to the enterprise market segment in the USA during this quarter. The same will be extended for our customers in Canada and in the UK during this quarter. Long distance voice business will continue, in our opinion, to be under pressure with new entrants both in domestic and international voice business.

Reliance global business focus on data has resulted in higher contributions during the quarter ended 30 June. Data revenue share has grown from 18% to 31% of the global business segment, which will allow us to keep growing in the business with higher EBITDA margins and profitability.

Flag Telecom, our submarine cable business, has turned around and most of the challenges are behind us now. Flag Telecom has signed major long-term contracts for capacity sales in all its regions of operations including Asia, Middle East, Africa, and European regions.

Our Falcon project is on schedule. Falcon has achieved significant success in pre-sales to most of its landing parties in the Middle East and is now being extended to Maldives and Africa.

The International Chamber Of Commerce has given the arbitration award in favor of Flag Telecom against VSNL (that is Videsh Sanchar Nigam Limited) for upgrading capacity anywhere in Flag Europe-Asia cable system. As a result of this, the potential upside growth for Flag is 140 gigabytes of capacity on East and West of India. This we believe will facilitate significant growth of the internet and BPO segments of our economy.

I will now hand over to Mr. Prakash Bajpai to discuss the performance of our broadband business.

Prakash Bajpai

Thank you, Mr. Khurana, and hello everybody.

I am happy to report continued momentum in the growth of our broadband business in the first quarter of this year. As our Chairman mentioned, with a comprehensive portfolio of products and solutions in the space of voice, data network, and IT infrastructure services, we have already become the premier telecom partner to most of the top corporates in India.

During the various customer road shows we conducted for CIOs and senior telecom administrators, customers have appreciated the reliability and the pan India reach of our optical fiber based, IP centric, MPLS enabled network, which really allows us to create higher uptime for their enterprise applications, and also the flexibility and scalability aspects of our networking solutions.

Our revenue growth of 17% quarter-on-quarter comes on the back of strong growth in the subscriber base of 26%, as we added 66,000 access lines.

With a focused and structured account management for top pan India enterprises and SMB segment, we believe we are very well poised to continue to gain market share and expand our revenue with growing needs of businesses.

This increased share of spend on broadband applications and services is helping us to expand our margins which have made significant improvement of 46% over the previous quarter to an EBIDTA level of 39%.

We have also increased the pace for getting more and more buildings on our unique optical fiber metro ethernet network, and we added another 80,000 building in the top 30 cities. We plan to continue to add more buildings in the prime markets to serve the growing needs of our customers.

I will now hand it over back to Daniel.

Daniel Newman

Thank you, Prakash.

At this point in the call, we will open the floor to Q&A. I would suggest that, as we have the Chairman and the top management available today, you should focus your questions on strategy and business performance. Of course, the Investor Relations team and I will always be available and happy to respond to your follow-up questions on the financial statements and the operating metrics disclosed in our quarterly report.

Moderator

Thank you very much, sir. We will now begin the Q&A interactive session. At the moment, I would like to hand over the floor to Ayesha to conduct the Q&A session for participants at the Singapore bridge. Thank you and over to Ayesha.

Singapore Moderator

Thank you, Pratibha. We will now begin the Q&A session for participants connected to the Singapore bridge. Please press 01 to ask a question. The first question is from Mr. Sundeep Bihani of Lehman Brothers, Hong Kong.

Sundeep Bihani

Good evening, gentlemen, thank you for the call, and congratulations on a splendid set of results. I just have four questions. First is on your planned GSM roll out – any updates there, especially on capex spend for FY08 and what kind of target market share would you be looking at on your new GSM roll out?

Second, on the balance sheet, you have about US\$2 billion in gross cash – any plans for acquisitions or spending such high amounts of cash?

And my two other questions are for the divisional heads. Long distance margins have grown up pretty fast from almost 1% to 23% in five quarters – what kind of steady state margins should we be looking at? And in terms of broadband, any update on the retail broadband roll out from Mr. Bajpai?

Thank you very much.

Anil Dhirubhai Ambani

I think, Sundeep, some very interesting questions. Let me just talk about GSM roll out and the capex, target market share, etc.

As most of you are familiar, post the reorganization, Reliance Telecom, which is our GSM company, is now a 100% subsidiary of Reliance Communications. We operate on both the platforms, CDMA and GSM, and we continue to grow and invest in both the platforms. In the specific circles that Reliance Telecom operates GSM services, we also have a unified access license under which we are operating CDMA services. So our plans are to continue growth on those platforms.

As far as the capex is concerned, the capex indications that I covered in the call at roughly the US\$ 1.4 billion number and just under US\$ 1 billion on the wireless side, is something that we will continue with as we look at the future.

Target market share: I think that we not only want to retain and maintain our market share in our various businesses, but we are focused really on more profitable growth and we would like to target share of EBIDTA in each of those market and each of those services, rather than just chasing market share. So that is your first set of questions, Sundeep.

As far as the US\$ 2 billion is concerned, I think that if you look at the momentum of growth of the past, and especially of the current year, and the opportunities in front of us as India moves over the next 4 to 5 years to support 500 million mobile customers, clearly Reliance will lead that journey into the future and whatever we require in terms of our capital spending will come from our cash flows and from our cash balances, so it will be money well used.

If I turn to your question on acquisitions. The Indian industry structure is pretty much cast in stone and I doubt there is likely to be any major movement in terms of the industry structure, so really there are no major opportunities of scale and magnitude that we can think of today which can consume a large part of our cash balance.

To come to the long distance question and the retail broadband question, let me get Mr. Khurana and Mr. Bajpai to take this.

B.D. Khurana

Hi Sundeep, this is Khurana referring to your question on long distance increase in EBIDTA margins and the future we see in this. We shall continue to focus on increased share of our data business in our global business unit, and we believe that this will give us profitable growth. Flag already is contributing to a positive EBIDTA now, and Falcon will add to this journey to our growth and profitability. I will hand it over to Mr. Prakash Bajpai.

Prakash Bajpai

The retail broadband question. First of all, we continue to remain focused on adding more buildings on our last mile optical fiber network in prime markets, and these prime markets are either business districts or residential areas. With optical ethernet connectivity, we are gradually getting ourselves into a unique position to serve all the needs of a digital home whether they are telephony applications, secure internet applications, telecommute applications or interactive IPTV applications. In the background, we continue to prepare for the IPTV ecosystem, the content management systems etc., which are needed for a large-scale deployment of IPTV services. So there is a two track parallel effort if you will. We continue to add more and more buildings, which is what is needed for a large-scale retail broadband phenomenon and the second where we continue to prepare for the back end, which is needed for receptivity.

Anil Dhirubhai Ambani

So, Sundeep, I think you have got all your questions answered hopefully.

Sundeep Bihani

If I may ask a clarification, sir, it is relating to the GSM side. You talked about share of EBIDTA, so with the new GSM network what kind of incremental EBIDTA market share would you anticipate? Thank you.

Anil Dhirubhai Ambani

If you look at the margins today, we are talking about being in the 35 to 40% EBIDTA range depending on which operator, which markets, you are talking about, and I think those are healthy levels of EBIDTA margins, in that range, to forecast into the future.

Can we take the next question please?

Moderator

Ayesha, can we move to the next question.

Singapore Moderator

Yes, next we have Mr. Anand Ramachandran from CitiGroup, Hong Kong.

Anand Ramachandran

Yes hi, thank you so much for the call, and again congrats on a good set of numbers. Just a couple of questions. To continue with Sundeep's question on GSM, I was wondering if we could have a quick view of how many circles you have planned to spread the GSM footprint to may be over the next 6 months or may be over the next 1 year, what is included in the capex guidance you have given? That is question #1. Question #2, any acquisition thoughts or any, I guess, footprint expansion thoughts outside India for now? I did read in some press reports that you were looking to apply for the license in Sri Lanka. I am wondering whether there is any truth to that? Thank you.

Anil Dhirubhai Ambani

Let me take the easier question first in terms of acceleration outside India. Our Sri Lanka license, or any such reports that you see, are market development exercises. We like to pre-qualify for various opportunities, we like to run through the process to get a deeper understanding of these markets, and we are committed to create service revenues streams in each of our businesses into the future. So whether it is an opportunity in Sri Lanka or in some other geography where we think that we can bring service revenues and bring our expertise and experience of what we have achieved in India and share some learning with those markets, I think those are the types of opportunities that we will really look at.

Are we looking at buying Vodafone KK in Japan? The answer is no. So much for acquisitions into this space.

To talk about the circles in 6 months and 1 year. As you know, we are already operating in seven circles in GSM. Those capacities are being substantially expanded in all the seven circles. We have also applied for GSM spectrum in other circles in which we are operating CDMA services. There will be an ongoing process of discussions with the government in terms of how we will get allocated that spectrum and as an when there is clarity and there is a development that we need to keep our investors informed, I am sure you will be one of the first to know.

Move to the next question. Thank you.

Moderator

Ayesha, can we take the next question.

Singapore Moderator

Once again, participants to pose a question please press 01. Next, we have a question from Mr. Suresh Mahadevan from ABN Amro, Hong Kong.

Suresh Mahadevan

Yes, good evening gentlemen, thanks a lot for the call and congrats on a good set of numbers. I had three questions.

Question #1 is: can you give us an update in terms of your efforts to improve the affordability of CDMA handsets? I know there has been a lot in the press about the royalties and I am sure the chipset prices are very different, so it would be great to get an update from you on that.

Second question is a very specific question on your accounting policy towards handset subsidies. I understand, correct me if I am wrong, but I understand it is clubbed under "Others", but I just wanted to understand how you are accounting for it. Are you expensing it completely in a quarterly period or are you amortizing it over the life time of the subscriber? That is question #2.

And question #3 is: I wanted to get a sense from the business heads in terms of what the sustainable EBITDA margins are, particularly for the global and broadband business. We have seen a fairly good up trend. I just wanted to get a sense of how sustainable or where are we plateauing out on this? Thanks a lot.

Anil Dhirubhai Ambani

Thank you, Suresh. First, let me thank you for your very quick update on our results yesterday, which came out in a matter of a few hours from the time we announced the results, so I am assuming that you did not have an advance copy of our results.

To move to your three questions, let me answer the easiest question first, which is your second question on accounting policy for handset subsidies.

We across all our businesses follow a conservative accounting policy, so whatever are the handsets subsidies are expensed and are passed through P&L. Also, when you see consolidated financial results, then that is fully reflected in the P&L statement as you really see. And just to further elaborate on our conservative accounting policy, I am sure you have heard about the ongoing discussions with the Department of Telecom in terms of subscriber verification. As and when the policy gets announced, whether 10% of the customer base will be verified or 30%, or 50%, or 100%, what we have done at a conservative level is provided close to US\$ 15 million in provisions for this full financial year so that, as and when policy is announced, we have provided as if we have to verify 100%. If it is lower, then there will be a credit, but there is unlikely to be a debit unless some changes occur in terms of how they want us to verify the customer. So just to give another example of our accounting policies on our conservative basis.

To talk about the first question on improving affordability of CDMA handsets. Clearly, the CDMA handset ecosystem has got very major challenges and the Qualcomm approach in no way helps us to further bring down the affordability index for millions of customers in India. So Qualcomm continues to be a big challenge for us, whether it is in royalties, whether it is in chipsets, whether it is in their ability to deliver value and low cost solutions to millions of Indian customers. We are in discussions on a constant basis. This is not a new dialogue. This is a constant dialogue with Qualcomm after getting them to understand the realities of the Indian market, which is not the reality of operating in United States for example, and making them more aware of the challenges that we face and the work that they really have in front of them. So this is a long, winding journey and there are no quick fix solutions, and if there are quick fix solutions, all of them unfortunately are in the Qualcomm domain rather than in our domain. So that is really on the affordability of CDMA handsets. At the same time, I must add that we have now got many more vendors participating in our handset program and you will see increasing number of handsets available in India at various price points over the next 3 to 6 months and I would say primarily driven by a Reliance effort rather than an effort by anybody else.

I will move now to sustainable EBIDTA margins for global and broadband - Mr. Khurana and Mr. Bajpai.

B.D. Khurana

Hi, Suresh. We believe that the EBIDTA margins, which we have achieved during the quarter, are not only sustainable, but there is a scope for improvement, which we will work on. Mr. Bajpai.

Prakash Bajpai

Yes, I think for the broadband business, it is a facilities based business and one way to look at it is as a pipe for connectivity business, in which case really the fill factor determines the margin. But we also believe that this is not just a connectivity business. It is actually creating products, applications, and solutions, which is where the value gets created for the customer. We believe there is space in both these areas. So what we have achieved is on track, but I think there is further improvement possible.

Anil Dhirubhai Ambani

In summary, Suresh, what both my colleagues are saying is the sustainability of the current EBIDTA uptick is really feasible. It will really depend on our customer relationships, our products and services, our quality, and our overall competitiveness to maintain that.

Suresh Mahadevan

Thanks a lot for answering my questions. Thank you very much.

Anil Dhirubhai Ambani

Thank you, Suresh. We will move to the next question.

Singapore Moderator

At this moment, there are no further questions from participants at the Singapore bridge. I would like to hand over the proceedings to USA.

USA Moderator

Thank you very much. At this time international participants may press *1 if they would like to ask a question. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Your first question comes from Vivek Duggal of Credit Suisse, London. Vivek, your line is open.

Vivek Duggal

Hello there, this is Vivek Duggal from Credit Suisse. Very quickly, I have two questions:

Firstly, what is the confidence that you have that you would be receiving the additional spectrum from the regulators for GSM?

And secondly, giving that dual technology strategy, both for CDMA and GSM, has never seemed to work globally or there is no track record that a dual strategy for an operator has worked previously, what confidence do you have that you would be able to succeed in that?

Anil Dhirubhai Ambani

Lets take your second question first. For the record, we are operating in seven circles on a full dual network, both GSM and CDMA, and, to put that in to perspective, we have roughly 2 million customers on GSM and we have roughly 2 million customers on CDMA. So this is live and kicking, operating not for 2 months or 3 months, but for a few years together, so we are perhaps the only operator in the world who has successfully deployed both the technologies, operated them, and served customers, and created customer experiences to create value for all stakeholders. So this is something that we are already doing.

Your first question is confidence in obtaining GSM spectrum. I think what you need to look at is that in India we are one of the first countries in the world to go to a unified access service license. Our licenses are technology neutral. The government will work towards whichever technology platform that operator wants and they really, really do. So today, we have other operators in India, and I will not name others, who are also operating in select circles CDMA and GSM both. We believe based on our discussions that we have had, and the responses that have been publicly aired by the Department of Telecom, that there is a very good chance that we will be able to get GSM spectrum. As you know, spectrum is allocated on a subscriber growth basis and the customer numbers are visible to people in terms of eligibility for spectrum. I think that all participants, whether it is Reliance or anybody else who is potentially thinking of having an enhanced focus towards GSM, will be governed by the same policy framework. So that in substance is really our own view in terms of GSM spectrum and operating dual technology.

Vivek Duggal

Right, thank you very much for your answers, and just one quick follow up, and this is to do with the fact that something like 75% of all net adds that are coming in India at this point are coming from GSM. Given the fact that you are moving into GSM, would it be fair to suppose that going forth in the longer term you might actually transition to be a GSM-only operator?

Anil Dhirubhai Ambani

I think it will be too premature to talk about where we will end up in 2010. As we look at the customer growth lets say in the month of June where we had more than a million net adds. We are here to serve customers, we are here to see that we provide the best service and quality. All the work that we have done till now with our customers shows that customers are neutral towards technology platforms. They choose the service provider on our quality of service, our coverage, our reach, our tariffs – that is what they really choose. We will move to the next question.

Vivek Duggal

That is very useful. Thank you very much.

Anil Dhirubhai Ambani

Thank you. Shall we move to the next question please?

USA Moderator

Your next question comes from Eashwar Krishnan with Lone Pine Capital in London.

Eashwar Krishnan

Yes, I have two questions as well, which are also follow on from many of the questions that you have received today.

Firstly, with regard to the CDMA technology platform, it has obviously also allowed you to post significantly lower than industry churn and the profitability now is certainly comparable to that of GSM operators. I am curious as you potentially roll out GSM more aggressively, what does this do to your tariffing strategy because Reliance has clearly enjoyed significantly greater spectral efficiency that has allowed you to be much more aggressive on tariffs and it also reflects in the minutes of use on your network. Does this mean that you are also going to have a dual tariff structure with regard to GSM and CDMA, so if I am a customer I can choose GSM at a certain tariff rate card or CDMA with a different tariff card?

And secondly, if you could give us a rough sense of how you see your net adds breaking out between GSM and CDMA going forward, that will be helpful. Thank you.

Anil Dhirubhai Ambani

I think that as far as the net adds are concerned, our GSM business is a very small portion as of today relative to CDMA business, so I would say that 90% plus of net adds coming from CDMA, compared to GSM, just goes back to the capacity that we have on GSM versus CDMA.

As far as the lower churn is concerned and a dual tariff strategy is concerned, there are national schemes on tariffs, but there are also circle wise schemes and there are zone wise schemes. This is to do with the competitive landscape; it is not to do with GSM or CDMA. It is also a function of our network capacity. It is a function of what type of devices we are selling. It is a function of what type of customers we are selling to - is he a corporate customer, is he a small medium enterprise customer, is he a retail customer? It really depends. So I do not think that we stack up a tariff card and say this is a GSM tariff card and this is a CDMA tariff card. The customers have the full choice of all service providers and I do not think that they go into a service provider and say "is this tariff for GSM or for CDMA?", at least this is not what we have experienced. So I think that as long as we are technology neutral in the minds of our customers, which is what has been depicted and displayed over the last many, many years, we are going to be OK. Clearly, what the GSM companies are realizing from the Reliance experience is how do we bundle handsets with that effect, and those are successes that naturally we will take into any new business that we are going into wherever applicable. Thank you Eashwar, any further question or we will move to the next question.

USA Moderator

At this moment, there are no further questions from participants outside India. I would like to hand over the proceedings back to the moderator.

Anil Dhirubhai Ambani

Take questions from India.

Moderator

Sure, sir. We will begin the Q&A interactive session for participants in India. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present questions on a first-in-line basis. Participants are requested to kindly use only handsets while asking a question. To ask a question please press *1 now. First-in-line we have a question from Mr. Vinay Jaising of Morgan Stanley.

Vinay Jaising

Thank you very much, thanks for the great disclosures and congratulations on a good set of numbers. I have a few questions: firstly, if you could share with us your experience in the East of India wherein you have both GSM and CDMA, just from the perspective of how do you sell it to the consumer, you have Web Worlds and the FMCG route, for GSM and CDMA, so that would give us possibly a clue as to how it is neutral for a consumer?

The second question is tax rate. Your tax rate effectively has been around 5% this quarter, well below the MAT level, any future visibility on the same?

The third question is: are these numbers consolidating all the telecom earnings, which also includes Flag?

The last question comes on inter division revenues. The inter division revenues as a percentage of total revenues have gone down by about 250 - 300 basis points. I believe traffic has increased in your network. This does not make sense to me. Can you throw some light on that as well? Thank you.

Anil Dhirubhai Ambani

Thank you, Vinay. First of all, for the participants who have joined us from India and have been waiting for quite some time, we will extend the call to roughly 6:15, so you will have enough time for your Q&A. Let me go into Vinay's questions and talk about the simpler first.

Is everything consolidated? The answer is yes.

What sort of tax rates should we really use? I would urge you to be conservative and use the MAT rates as the tax rate, because then anything below that is only better for us, so that is second and the third question.

To your first question on experience in GSM and CDMA overlap and how do you market? The seven circles where we sell GSM and CDMA both, we sell one under the Reliance Mobile brand name, which is our CDMA service, and the second one we sell under the Reliance Smart Mobile brand, which is our GSM service. In our experience, customers walk into our store and say that we want a Reliance phone, or we want a Reliance SIM card, or we want a Reliance service. I do not think that they have yet come back to us and said we want GSM or we want CDMA, but they are going to come back to us and say we want your new offering, which is an 1,800 rupee product, we want your color handset, so on and so forth. I have said this earlier, and I will repeat it again, that in our GSM and CDMA circles, where we operate in seven circles, we have roughly 2 million subscribers on GSM and roughly 2 million subscribers on CDMA.

To the last question on inter divisional revenues, Daniel, you want to comment.

Daniel Newman

The primary contributory factor for having lower inter divisional revenues is because the long distance carriage charge, which is paid by wireless and broadband to the global division, was reduced in line with the reduction in carriage charges in the open market for wholesale customers. As you know, we always conduct internal transaction in line with open market rates for comparable types of customer relationships.

Anil Dhirubhai Ambani

Thank you Vinay, any further questions, or we will move to the next question.

Moderator

Thank you very much, sir. Next-in-line we have a question from Mr. Rahul Singh of CitiGroup.

Rahul Singh

Thank you, sir. I have two questions. Firstly, in the wireless business how do you explain the increase quarter-on-quarter in subsidies, especially when the net additions, even if we adjust for the increase in churn, the gross additions also does not seem to be great. So I just want to get a sense of how do you plan to use subsidies as a tool to retain the market share or increase the market share. That is #1.

#2 on the current liabilities, again we see a lot of increase in current liabilities and a significant portion of cash flows coming in from the change in working capital, so I just wanted to get a sense whether you have booked any pre-sales from Falcon as part of revenues or what exactly is driving that?

Anil Dhirubhai Ambani

OK, thank you, Rahul. Let me get Prakash to answer the first question on subsidies and what is our overall approach to subsidies.

S.P. Shukla

Thank you, Rahul. The general direction we take on subsidies is we must leverage the capacity which we have available. So we take a circle by circle approach, and not a national approach, so in the circles where we have extra capacity available we leverage the free minutes, which are perishable otherwise, to get our customers in. This is our overall direction. Talking about the quarter, which you asked the question, for competitive reasons I cannot give you the number, but general direction, is that even in this quarter we had excellent gross additions. Due to tariff rebalancing exercise that we took, and results of that are obvious when you look at our revenue per minute, which has improved significantly from 71 paise per minute to 77 paise per minute, you will understand that we did capping of various tariffs plans where we restricted the minutes. So we had slight increase in churn, but our gross adds continued to be strong, our subscriber acquisitions remained strong in the quarter. That was a one-time effect, which we did to improve further the profitability of our existing customers that is reflecting in the question you asked.

Anil Dhirubhai Ambani

Just to supplement what Prakash said, I think that whether you give cash subsidy or a minute subsidy, this is no longer now visible to us only in our business. We are now seeing this as a technique being used by every GSM operator, every large GSM operator in India, who is now learning from what Reliance has achieved and done in the last quarter. Daniel, you want to comment on the increase in the current liability side?

Daniel Newman

Yes. There are two factors. First, the accounting policy for recognizing revenue earned on lifetime incoming plans is to defer that revenue over at least 48 months, so clearly as we have new subscribers choosing that particular scheme, that will increase the current liabilities. And secondly, as you rightly identified, there was also recognition of pre-sales on Falcon.

Anil Dhirubhai Ambani

So those were, Rahul, the two primary reasons for the increase in current liabilities.

Rahul Singh

OK. So one follow up: was there a one off impact from the costs of repositioning of the brand in the quarter?

Daniel Newman

Nothing significant, Rahul. Clearly, from quarter-to-quarter, corporate marketing expenses may vary, but I would not call it a one-off effect similar to what you may have seen with other operators.

Rahul Singh

OK, thanks.

Anil Dhirubhai Ambani

Thank you. Move to the next question please.

Moderator

Sure, sir. The next question comes from the line of Mr. Anirudh Joshi with StratCap Securities.

Anirudh Joshi

Hi, congratulations on a good set of numbers. I just have one doubt concerning GSM network and CDMA network. CDMA is, I guess, more capital intensive. I have seen Q1 FY06 revenues and EBIDTA and Q1 FY07 revenues and EBIDTA. The revenue and EBIDTA absolute number have almost increased by similar amount that is Rs 1,000 crores, so I just want to know if we continue with our CDMA network whether we will have 100% or lets say 85% of revenues going down to EBIDTA level, which is not the case of GSM players. Some of the GSM players are having continuous EBIDTA margin of only 35%.

Anil Dhirubhai Ambani

OK, Anirudh. This is a little more detailed question. Can I request you to touch base off line and I will get Daniel to call you and answer your specific question in detail. Is that OK with you?

Anirudh Joshi

OK, sir.

Anil Dhirubhai Ambani

Thank you. Shall we move to the next question please?

Moderator

Sure, sir. Next-in-line, we have Mr. Srinivas Rao from Enam Securities.

Srinivas Rao

Hi, congratulations on a good set of numbers. I have one question on the global business. Reliance has had a couple of significant deal wins in the last quarter and the Deutsche Telekom deal win that we heard about some time back. Because that market is extremely competitive, I just wanted to understand what was the EBIDTA impact of that. Secondly, regarding the arbitration against VSNL that Reliance has won, there have been press reports of Reliance putting in a damages claim arising from the judgment of the tribunal. What is the status of that?

B.D. Khurana

OK. I am Khurana responding to your question. Our existing capacity of FEA cable system is 20 gigabytes and, with this upgrade possible now, it will move to 160 gigabytes, so there will be additional capacity available of 140 gigabytes for East and West of India. Regarding the award which we have got, we are implementing this and, as soon as we are able to upgrade, this capacity will be made available. We have already starting moving in this direction. You had another question on our major deals with Deutsche Telecom and China Netcom and others, although they are competitive, they still add positively to the EBITDA.

Anil Dhirubhai Ambani

Thank you. Can we move to the next question?

Moderator

Thank you very much, sir. Next-in-line we have a question from Mr. Vikram of Birla Sunlife.

Vikram

Hello, I just had to check one thing on the other expenses. You had mentioned that some part of this is foreign exchange adjustment and some is unallocated corporate expenses. Can I get a detail breakdown of that?

Daniel Newman

We are not going to give that level of detail, as we have already given a considerable amount of detail.

Vikram

Thank you.

Anil Dhirubhai Ambani

Thank you. Can we move to the next question please.

Vikram

Next question I have is your global EBIDTA margin has shown a very good improvement from 18% to 23%. Is this trend sustainable and what is the main reason behind growth in the EBIDTA margin of global?

Anil Dhirubhai Ambani

OK, I am going to pass it onto Mr. Khurana.

B.D. Khurana

I think the major contributor is, as we have said, the increase in our data business which gives higher EBIDTA margins. The share of global revenue from data has grown from 18% to 31%. And secondly, the contribution of positive EBIDTA coming from Flag because all the challenges we had in the past are behind us now on Flag.

Vikram

So you still think there is a lot of chance of improvement because it is still lower than the global numbers like you know you may go up to 26 to 27%, so is this opportunity still for you to grow the numbers?

B.D. Khurana

Well we will keep working towards this and that is our intent.

Vikram

OK, thanks a lot.

Anil Dhirubhai Ambani

Can we move to the next question please?

Moderator

Sure, sir. Next question comes from Ms. Reena Verma of DSP Merrill Lynch.

Reena Verma

Mr. Ambani thank you very much for extending time to take our questions. A couple of queries from me on your GSM overlay plans. Is there any chance that you might reverse your decision to go the GSM way and if that were to happen what does Qualcomm need to do for you to reverse this decision, and also in terms of your capex guidance, if you can please help us understand what should we factor in as the incremental capex for a GSM overlay, if at all?

Anil Dhirubhai Ambani

First, Reena, let me say that we have never, ever stated that we are creating a GSM overlay plan #1. #2, since we have not announced any plan of a GSM overlay, there is no question of reversing the decision. #3, what does Qualcomm need to do? This is a question that many, many operators in the past have not got answers to, and have efficiently migrated away to GSM or some other platform. So it may be a good idea to get Merrill Lynch in the US to talk to Qualcomm on how they intend competing in the emerging markets to meet the large requirements of the competitive dimension for subscribers. As far as incremental capex is concerned, clearly there can be no guidance because our contention in the past and even today is that we are going to have enhanced focus on GSM. We have applied for GSM spectrum. We are growing our existing GSM business and that is where we really are. If you have been on the call, you would have heard my comments saying that we are in discussions with the Department of Telecom in terms of what sort of a framework are we really going to get into the future and based on that we will make a decision. As an when we decide, I am sure that like today, where you had all the disclosures that we believe that we need to make - we disclosed certain KPIs even in the March 31 numbers which were then matched by others and some that were not matched even now - and we believe that we will have a continuing disclosure and continuing interaction with all of you so that we can give you a better view. As far as the capex guidance is concerned, we are clearly at the US\$ 1.4 billion range with US\$ 900 million going into wireless, so nothing much has changed.

Reena Verma

Yes, thank you very much.

Anil Dhirubhai Ambani

Thank you, Reena.

Reena Verma

If I could just add to that a small question on Qualcomm. I am not going to defend them, but surely none of what has happened with Qualcomm was unanticipated. We knew they had royalties even when the decision for this technology was made, or has anything changed in the way you look at things?

Anil Dhirubhai Ambani

No. I think that Qualcomm as a company that operates in emerging markets is aware of the challenges and we are aware of the challenges in India, which we always relay to them and that is why I used as an example on the call that what is good for the United States is not necessarily good for India, and what is good for China may not be good for India, so there has to be an India-specific plan if they want to move ahead, because we are really concerned with the overall framework in which we do business in India.

Reena Verma

Thank you.

Anil Dhirubhai Ambani

Thank you.

Moderator

Thank you very much, mam.

Anil Dhirubhai Ambani

So we will take one last question unless there are two then we will take two.

Moderator

Yes, sir, we have one last question.

Anil Dhirubhai Ambani

OK, we will take one last question. Thank you.

Moderator

That comes from the line of Mr. Shubham Mazumdar with Macquarie Securities.

Shubham Mazumdar

Yes. I had a couple of questions. One was if you can give us a sense of the capacity utilization you are running on your CDMA network. I know there is not one number that you can give for the entire network as a country, but just some rough numbers in terms of what is the range of the capacity utilization you are running on the CDMA network on a pan India basis?

Anil Dhirubhai Ambani

Do you have any other questions then we can take it down and answer each one.

Shubham Mazumdar

Sure. My other questions are: can you just give us some quantitative sense in terms of where the handset pricing is on CDMA? I believe you have recently launched an LG low priced handset product. How does that compare to the lowest price entry level GSM handset and what is the outlook going forward in terms of the lowest price CDMA handset price decrease vis-à-vis GSM?

And the third question was on SG&A. There has been a very significant jump in SG&A on a quarter-on-quarter basis that is seen in this quarter. Is this something that will possibly continue? It was 15.9% of revenues in the quarter. Was there some one off items that came in this quarter or is that the kind of run rate we are to run with for the rest of the year?

Anil Dhirubhai Ambani

OK, good questions, Shubham. Let me take the capacity utilization question. As you rightly said, there is no one number for the whole of India. Every region, every zone, every state will be at different levels of capacity utilization. Let me answer it in a different fashion to say that, as we have said earlier, we have the capacity to serve roughly 30 million customers and you know where we are today, so adding the next 8 to 10 million customers on our network will require bare minimum capital expenditure to serve in the entire network system, so I think that is where we are as far as capacity utilization is concerned because we would like to monitor capacity utilization effectively aimed at how many more subscribers can we really serve.

Secondly, as Mr. Prakash Shukla mentioned in his comment, as we went from unlimited plans to limited plans and we curtailed the number of minutes, actually we are now in a position that if our customers use more minutes they have to pay for it. Alternatively if they have less utilization, it means we can bring more customers into our network to use our capacity because this capacity can now be sold.

To your second question on handsets and handset prices and CDMA versus GSM, when you see the device prices in the market place, which, say, Rs 1,800 or retail at Rs 1,499, it is not actually factoring the acquisition cost. Sometimes the acquisition cost could be 200 rupees higher, somewhere it may be 300 rupees lower, so there is no real benchmark. We have got to really look at where we are in terms of the competitive landscape. Also you cannot compare handset to handsets unless you compare the form factors, the features, and we have also different levels of taxation in different parts of India. So there is really no ready reckoner to saying this is a 1,400 rupees GSM phone, so CDMA must be at 1,400. I think that the net back will be very, very different.

To your last question on increase in SG&A, let me get Daniel to answer that question.

Daniel Newman

Yes, Shubham, I think most of the increase – apart from the increase that you would expect given that the business is growing – relates to two items. It reflects a slightly higher cash loss on handsets. As you know, we have a dynamic policy in terms of using capacity or minutes versus cash subsidies and that varies continuously. The second item is increased marketing expenditure associated with the new corporate identity. You asked if this is indicative of the kind of levels going forward. I think we have demonstrated over the past year, quarter by quarter, that we can exert considerable operating leverage and so no, I do not expect SG&A to grow at this rate in future quarters. You cannot look at one quarter in isolation and make a long term judgment based on that.

Shubham Mazumdar

Would you be able to quantify roughly how much was spent on the corporate identity exercise?

Daniel Newman

I will not break it out. Frankly, while the growth rate in SG&A was quite high, the absolute numbers are rather small in the context of Reliance Communications as a whole.

Anil Dhirubhai Ambani

Thank you so much and thank you for being on the call and we will see you on a call at the end of the next quarter results. Thank you so much.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.