RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for Quarter Ended June 30, 2007

Conducted at 4 pm IST on July 31, 2007

Operator:

Thank you for standing by. And welcome to the Reliance Communications Global Earnings Conference Call on the Reliance Audio Conferencing Platform. This call is hosted by Macquarie Securities. At this time all participants are in listen-only mode. There will be a presentation followed by a question-and-answer session, at which time, if you wish to ask a question, please press "star, one" on your telephone. Please be advised, this conference is being recorded today.

I would like to hand the conference over to Mr. Shubham Majumder. Over to you, sir.

Shubham Majumder:

Thank you. Good morning, afternoon or evening ladies and gentlemen. We at Macquarie Securities are pleased to host this call for the first quarter ended June 30, 2007 results of Reliance Communications. We would like to congratulate the Reliance Management on a fine set of results, which caps a quarter of hyperactivity and remarkable achievement. Today, we have the entire senior management team from Reliance Communications, the Chairman, Mr. Anil Dhirubhai Ambani and the leaders of the Company's strategic business units namely Mr. S. P. Shukla, who leads Wireless; Mr. Punit Garg, who leads Global Data including Flag Telecom; Mr. V. K. Aggarwal, who leads Global Voice and Mr. Prakash Bajpai, who leads Broadband.

The call will begin with some key observations from the Chairman and Senior Management of Reliance followed by a question-and-answer session. I must remind you that the overview and discussion today may include certain forward-looking statements that must be viewed in conjunction with the risks that the Company faces.

It is now my pleasure to hand over the call to Mr. Anil Ambani. Thank you.

Anil Dhirubhai Ambani:

Thank you, Shubham. I would like to welcome all of you to this earnings call organized today to discuss Reliance Communications' financial performance for the first quarter ended June 30, 2007.

To start with, I am glad to report that in the short period of one quarter we have lined up a long list of operating and financial accomplishments that provide us the impetus for our future growth.

But before I move forward, I would once again provide a quick background of our company Reliance Communications for those who do not all ready know us very well.

Most of you know us as a leading Indian wireless services provider. In addition, we operate the single largest private submarine cable system globally that we are now leveraging upon to rapidly move up the value chain. We carry over 40% of the total international traffic to India. We are the only Indian company with over 1 million individual retail customers in the United States. We provide data connectivity to over 80% of India's top companies. And we now have a customer base of over 35 million, placing us among the largest telecom companies in the region.

We continue to rapidly penetrate our addressable markets with a range of offerings that provide the highest standard of service and unmatched value.

We believe that we are well positioned to drive growth and development of the Indian telecom market and also address synergistic growth opportunities in the global telecom market. We remain completely focused on the achievement of profitable growth which we believe will create sustained long-term value for our more than 2 million shareholders.

Financial performance: If you look at our financial performance during the first quarter of the current fiscal year, revenues increased by 32% over the corresponding quarter last year and by 9.3% from the sequential quarter to Rs. 4,304 crores or US$ 1.06 billion.

Our profitability continued to surge. EBITDA for the quarter when compared to the corresponding quarter last year expanded by a whopping 50% to Rs. 1,814 crores or US$ 447 million.

EBITDA margin increased from 37% to 42%. This is the highest for any telecom company in India. Our EBITDA margin on a net revenue basis is 54%, which places us in the group of top 10 telecom companies in the world. In the first quarter, we recorded the largest year-on-year PAT growth of any telecom company in the country at 138%. Our profits increased from a loss of Rs. 250 crore two years ago to Rs. 513 crores in the corresponding quarter last year, to Rs. 1,221 crores in the last quarter, driven by value created across the various facets of our integrated telecommunications services business.

With this rapid expansion in profits, the return on net worth generated by Reliance Communications expanded to 36% in this quarter.

I would like to highlight some of the key performance indicators that differentiate our business from other participants in the industry.

Revenue generated from each wireless subscriber or ARPU remains very stable for Reliance Communications compared to a general industry trend of significant decline experienced by other operators. At Rs. 375 per month in the last quarter, our ARPUs are now among the highest in the industry. Our revenue per minute from wireless customers has also remained stable for several quarters, again compared to significant decline across all the other operators. In the first quarter of this fiscal year, we recorded revenue per minute of 74 paise, 6% higher than the preceding quarter. Our revenue per minute has consistently remained in the 70 to 80 paise range whereas others in the Indian telecom space have seen a trend of rapid decline.

Over the past year, we have created a strong financial platform that will form the basis of our accelerated growth in the future. We have worked towards optimizing our capital structure, reducing the cost of our resource base and building access to funds that involves very limited cash outflow over the next five years.

Our total asset base today stands at Rs. 42,000 crore or more than US$ 10.3 billion. Our net worth is now at Rs. 24,000 crore or US$ 6 billion. Our balance sheet today allows us to potentially access debt funds to the tune of Rs. 63,000 crores or US$ 15.5 billion.

These are very significant numbers, even by international standards, that will support our organic growth and expansion and allow us to pursue any inorganic opportunities available in the telecom sector in India and globally.

Along with the expansion of the resource base, we have focused on optimizing the returns from the resource base. Increasing the utilization of our assets and investments, we have expanded our return on net worth from under 20% when we listed to over 36% in the quarter under review.

You will probably agree that this is no small achievement, especially the rapid timing of the turnaround.

I am also happy to share with you that our stock market capitalization continues to surge as investors recognize the potential for further value creation from our various growth initiatives. The value of our company expanded during the quarter by Rs. 24,500 crores or roughly US$ 6 billion. We outperformed the benchmark Sensex, Nifty and other large cap and telecom industry peers by a factor of two times. We now rank among the top three private sector companies in India by value and also among the top five most valuable telecom companies in Asia.

The way forward: We are now committed to investment that will take us to the next level of growth and business achievement. I call this a transformation of your company over the next few years. We have commenced the rollout of the world's largest and fastest network expansion program. Upon its completion, we will operate the single largest wireless network in the world covering more than 900 million people in India across 23,000 towns, 600,000 villages, and we will also cover nearly a 100% of all the rail routes, national and state highways in the country. This course of expansion and scale of expansion has never ever been seen anywhere in the world.

Clearly emanating from this, coverage will be our key differentiator in this highly competitive Indian wireless market and we expect our already strong growth momentum to further accelerate as our expanded network becomes operational. In the first quarter itself, we have already made capital expenditure commitments of more than Rs. 10,000 crore or US$ 2.4 billion or virtually the entire capex guidance for the current fiscal year.

Value unlocking: We also announced two key transactions that underscore our objective of creating value for our shareholders and across our business operations. We recently announced the sale of 5% of the equity share capital of Reliance Telecom Infrastructure Limited, our fully-owned tower company, for about Rs. 1,400 crore that is roughly US$ 338 million.

The deal attributes an equity value of about Rs. 27,000 crore or roughly US$ 6.75 billion to Reliance Telecom Infrastructure Limited. This value is equivalent of Rs. 135 per share or more than 25% of the current Reliance Communications share price.

Operating as an independent wireless telecom infrastructure company, Reliance Telecom Infrastructure will provide integrated services to telecom operators in India and co-locate multiple tenants on its towers. Reliance Telecom Infrastructure has a significant build-out plan of over 23,000 towers during the current financial year, by when it will become the largest tower company in the world.

Going forward, we have many more such value unlocking initiatives at various stages in the pipeline. At our recent Annual General Meeting, the first one for shareholders, I announced our plans to unlock value from the proposed special economic zone at the Dhirubhai Ambani Knowledge City near Mumbai, and from the BPO business centered around our contact center facilities. This was in addition to Reliance Telecom Infrastructure and the planned IPO or private placement of Flag Telecom. These four initiatives should come to fruition based on current efforts by the end of this fiscal year.

The acquisition of Yipes: The other key transaction announced recently is the acquisition of US-based Yipes Holdings for Rs. 1,200 crore or roughly US$ 300 million. Yipes is a leading provider of managed Ethernet services. It currently has nearly 1,000 enterprise customers, across financial, legal, government and healthcare verticals which account for 50% of the Ethernet market. The market for managed Ethernet and application delivery services is forecasted to triple in size to more than US$ 25 billion worldwide by the year 2010. The acquisition of Yipes drives forward our strategy to offer the most sophisticated, cutting edge data communications products and services. We will now focus on rapidly doubling Yipes' coverage in the US and globalizing Yipes' service offerings by leveraging Reliance Communications customer relationships and worldwide network reach.

Proliferating the market: During the quarter under review, we have made several initiatives towards bringing more affordable connectivity solutions to subscribers in India. The most significant of these is the introduction of a range of mobile handsets under our proprietary brand name called "Classic". These feature-rich phones, straddling a wide

range from monochrome to color and FM radio phones, were very well received in the Indian market.
"Classic" provides mobile subscribers in India significant value at each price point compared to any other offering in India and across the world positioning us favorably for subscriber acquisition on our rapidly expanding network across urban as well as rural India.

I am happy to report that "Classic" is already the number two brand of handsets in the country. Strong up-take of the Classic range has driven our accelerating wireless subscriber additions.

The last month saw us adding 1.45 million subscribers, our highest ever net addition in any month. During the quarter, we added 3.87 million subscribers, representing a market share of nearly 20% of net additions. Going forward, we will continue to closely align with our technology partners to address the requirements of Indian customers through the introduction of even more affordable and feature-rich handsets, wireless internet data cards, a host of data applications, and mobile broadband technologies.

To close, I would like to reiterate that we are extremely excited about the opportunity that lies ahead of us. Starting way behind the mobile telephony boom across the globe, India could be expected to see a predictable trend of increasing penetration over multiple years. However, the potential of our business goes far beyond mobility alone.

The world is seeing a convergence of telecom, media, entertainment and the internet. There is no other company that we believe is better positioned to participate in the emerging opportunity as Reliance Communications.

With that, I will now request my colleagues to briefly update you on the progress made by each of our businesses this quarter. I will now hand over to S.P. Shukla, who leads our personal wireless business.

S.P. Shukla:

Thank you, Mr. Ambani and good day to all participants on this call. Reliance Wireless business, as you all know, caters to the full spectrum of customer segments in the field of mobile communications, fixed wireless, wireless internet, public calling offices and rural telecom. We are providing wireless services on CDMA and GSM platforms in 23 service areas across the country.

We begin with our financial results. Our Wireless revenues in the quarter ended June 30, 2007 have recorded a robust increase of 13.6% over the previous quarter. Similarly, EBITDA for first quarter went up from Rs. 11.5 billion to Rs. 13.4 billion. That is from US$ 283 million to US$ 330 million, a significant increase of 16.3%.

As a result, our wireless EBITDA margin has moved up from 38.8% in the fourth quarter to 39.7% in the first quarter of the financial year. Due to continuously improving economies of scale, we have been able to increase our EBITDA margin in every consecutive quarter in the last two years since the demerger from RIL.

These economies of scale arise from the continued rapid expansion of our subscriber base, which reflects our strong participation in the explosive growth of Indian's wireless sector.

During the quarter just ended, we added 3.9 million wireless subscribers, which is 19.6% share of industry net adds as against 17.6% during the previous quarter. As a result, our overall market share now stands at 17.6%. In the six service areas where we operate both CDMA and GSM services, we continue to outperform all other operators, with a 32% market share of net adds in the last quarter.

Coming to KPIs, our wireless ARPU remains stable at Rs. 375, which is US$ 9.25 in the quarter just gone by as against a continuous fall across the industry. Our revenue per minute recorded a notable improvement from Rs. 0.70 per minute in the previous quarter to Rs. 0.74 per minute in the current quarter.

Over the past two years, we have been able to maintain a consistent per minute revenue yield in the range of 70 paise to 80 paise per minute, while other leading operators have experienced declines of 30% to 40%. This has been achieved through further rationalization of our tariff structure, which resulted in relatively lower number of promotional minutes as part of the subscriber acquisition process. It also reflects the great success of our handset program, which I will come to in a moment.

The continued rebalancing of our acquisition and tariff strategy has resulted in minutes of usage declining from 541 minutes per subscriber to 510 minutes per subscriber during the quarter. In fact, you would noticed that for all three parameters - ARPU, RPM and MOU, we have converged with the best industry benchmarks.

Talking of handsets, the quarter ended June 30, 2007 saw the introduction of our highly popular Classic-branded handsets at three unique price points that blew the market away. For the youth segment, we introduced fully loaded FM radio capable phones at prices beginning Rs. 1,888 that is US$ 46. Similarly, for the segment upgrading to color phones from earlier monochrome handsets, we introduced a feature-rich model at just Rs. 1,234, which is approximately US$ 30. And for the economy segment, we introduced monochrome handsets at Rs. 777, Rs. 888 and Rs. 999 respectively, which is US$ 19 and upward.

In each case, our models offer the highest features at the lowest price compared with anything available not just in India, but anywhere in the world. In the past two months, we sold over 3 million Classic phones, establishing Classic as the second largest selling handset brand in the overall market, with a market share larger than the next three largest handset vendors put together.

The success of Classic handsets range and our undisputed leadership in the bundled handset plus service space has undoubtedly contributed to the strengthening of our subscriber acquisition performance. Today, we have a range of 15 Classic-branded CDMA phones and over 50 CDMA phones in total, which are available in the market across all the vendors in our program. This compares with just two models when we started our service in 2003, and there is a lot more to come...

I would like to share with you that we have just launched Classic handsets for our GSM customers in the eight service areas where we are operating GSM service. Response has been highly encouraging and we are confident of sharing excellent up-take numbers with you in the next quarter.

We have continued to be at the forefront in structuring innovative services and pricing plans. We led the industry during the quarter in offering India Roam Free plans, in which no roaming-related charges are applicable within India. Similarly, we became the first operator in India to offer international calling rates as low as Rs. 1.75, which is 4 cents per minute to the USA and Canada calling from India. Both of these initiatives were aimed at the high ARPU customer segment where Reliance has a strong position due to its usage friendly plans and superior data speed of our CDMA-1X network.

We have recently selectively re-introduced our unlimited talk plans for Reliance to Reliance calls in service areas where we have capacity available. This leads to quick monetization of new capacity created as a result of our massive network expansion. In the non-voice area, we were the first operator in India to extend the micro billing concept to mobile data and content services. This has been a driver of subscriptions to popular services such as caller ring back tone.

I am happy to report that the number of unique users of our wireless multimedia Reliance Mobile World services crossed 10 million in the last month, which is 1 million higher than any month in the previous quarter.

Coverage: One of the critical factors contributing to the tremendous subscriber growth and hence scale economies for the wireless business is accelerating network expansion. Our CDMA coverage expanded during the quarter to 10,000 towns and that of GSM to 2,500 towns. This reflects an almost 25% increase in footprint since last quarter.

We are well on track to become the first operator in India to reach a 23,000 town footprint that is almost 100% coverage of all habitats in India with over 5,000 population. We will also be covering almost 100% of national highways and railways and over 80% of state highways.

We would also like to share with you another unique achievement in the area of rural telephony through wireless coverage by Reliance. In the USO tender, Reliance has bagged 8,982 sites. What is noteworthy is that we will be putting up radio electronics at all these sites at zero rentals for the next 5 years. Furthermore, we will be entitled to a capital subsidy on radio electronics in the USO project areas of North East and Jammu and Kashmir.

This will allow us to stay one step ahead of competition and provide us a sustained competitive advantage.

I shall now hand over to my colleague, Punit Garg.

Punit Garg:

Thank you, Prakash. Good morning, good afternoon and good evening, ladies and gentlemen. The Global business of Reliance provides international voice and data services. As a segment, Global revenues reached Rs. 13 billion or US$ 320 million.

After netting of license fees and traffic charges, our retained revenues grew by a creditable 6.2% on a sequential quarter basis. Our EBITDA grew by 3.8% to Rs. 3.2 billion that is US$ 79 million, hence EBITDA margin improved from 24.1% to 24.9% in sequential quarters.

I would now like to provide an overview of the Reliance Global Data and FLAG business.

Our existing customers continued to provide us with significant repeat business. We won new contracts from over 100 customers during first quarter. Traditionally, the first quarter is the quietist period of the fiscal year. We won major contract values from Hutchison Global Communications, Etisalat from the Middle East, United Technology Corporation from Kuwait in the Middle East, Singtel in Asia and many more customers from the United States of America as well as Europe.

In addition, we continue with our success in the Falcon Cable System. We signed an MOU with a Middle East operator for an over Rs. 2 billion which is US$ 50 million as pre-build commitment. We continue to grow our network services and value added services in addition to capacity services. We are pleased to announce that we established our first Virtual Point of Presence on the Falcon System in Bahrain. This is a win-win arrangement where Batelco's enterprise customers can get one-stop connectivity to the rest of world. Flag is also able to sell high margin products such as IPLCs, MPLS VPN and Global Ethernet through Batelco's sales channels in Bahrain.

In addition, we are expanding our network coverage for connectivity services. We signed a global partnership agreement with VANCO, which is one of the world's largest Virtual Network Operators and provides advanced connectivity services to over 230 countries.

Customers purchasing MPLS VPN services from FLAG can now get one-stop connectivity to countries in Latin America and Central America.

On July 14, 2007, we signed definitive agreements to acquire 100% of US-based Yipes Holdings, Inc. in an all cash Rs. 12 billion/US$ 300 million transaction. Yipes is the largest pure-play Ethernet service provider with nearly 1,000 blue chip customers and connectivity over its own 22,000 km network to the top 14 metro markets in the US.

Ethernet is by far the highest growth segment within the global data market. Ethernet is already a US$ 10 billion market and forecast to grow at a compounded rate of over 30% per annum and become a US$ 25 billion market globally by 2010.

Yipes has exceptional product capability in Ethernet, and has been recognized by leading international organizations such as Forrester Research and IDC to be amongst the most prominent companies in its field, several years ahead of its competitors.

Revenue is growing at over 40% per annum. Over 98% is repeat revenue. Financial year 2007-2008 revenue of Yipes is expected to be nearly Rs. 4 billion that is US$ 100 million. Its gross operating margin exceeds 55%.

Yipes will become a wholly-owned subsidiary of FLAG Telecom. Yipes will operate as a strategic business unit within FLAG. FLAG is committed to spend over Rs. 10 billion that is US$ 250 million in capex over the next couple of years to expand Yipes' network to 28 metro markets in the US and to take it global on the FLAG footprint.

We expect to get regulatory approval to complete the acquisition during the last quarter of 2007.

NGN: At the beginning of the year, we announced our Rs. 60 billion that is US$ 1.5 billion global expansion of FLAG's Global Next Generation Network over the next few years. I am happy to inform you that we are close to awarding the supply contract. We are in advanced discussions with potential landing parties to secure pre-build commitments.

You may have heard of new cable announcements. These are new consortium-led systems owned by incumbents and operators in those geographies: TPE system announced between China and the US; AAG system announced between Asia and the US; EASSY for connectivity from South Africa to East African countries.

We view these systems as complementary to our plan to either provide protection to our cable or act as "Feeder" systems to the FLAG Global Network.

I would say, to conclude, that Yipes' Ethernet technology leadership and enterprise customers combined with FLAG leadership in the Middle East and Asia including China, Taiwan and Korea; and Reliance Communications' leadership in the domestic data business in India - we are uniquely well-positioned to capture most of the growth in data communications services.

Thank you. Now, I will hand over to V.K. Aggarwal for global voice customers.

V.K. Aggarwal:

Thank you, Punit, hello everyone. I will now give an overview of the Global Voice business. As you know the Global voice business comprises the international voice business as well as the national long distance business.

We had highly satisfactory performance in this quarter when I speak of the financial performance and the KPIs. In the face of stiff competition, we were able to maintain our customer base and market share in both wholesale and retail segments. We remain the number one ILD service provider in terms of market share with 40% share in the largest segment of the market, ILD India Inbound traffic.

As you are aware with the reduction of the regulatory charge known as ADC, there were price adjustments in the market for wholesale prices and the benefit was passed on to customers. This also added to the traffic volume growth.

Our international long distance minutes grew by 6% to 1.6 billion in this quarter and the national long distance minutes grew by 16% to 5.6 billion on a sequential quarter basis. Better net realization for ILD Inbound helped us improve our margins. Also, Reliance India Call had better revenue realization and margins in Q1 accompanied by higher traffic volume.

The stronger Rupee had some impact on the international voice business performance but as I said the higher traffic and better realization for both wholesale inbound and retail prices for Reliance India Call resulted in good margins in Q1 on a sequential basis as compared to the previous quarter.

International Retail Products: As you know, we have a major chunk of international retail customers, who call India and we crossed 1.2 million customers mark during this quarter. Despite growing competition, Reliance India Call remained the number one retail calling service to India from the US with over 40% market share at the retail level.

Last week, we announced the launch of Reliance Passport range of products for international travelers. Reliance Passport offers international virtual out-roaming at affordable prices with the convenience of buying in Rupees before flying – in Rs. 500, Rs. 1,000 and Rs. 1,500 denominations. For international travelers to India, we have launched a service to receive incoming calls with virtual in-roaming experience.

Network expansion: Our key business drivers are carrier relationships, network spread and its management, as well as the interconnection with other service providers to maximize carriage of traffic on Reliance's domestic and international network which ensures cost competitiveness with good quality.

Our pan-India optic fiber network is being expanded from 100,000 Rkms to 130,000 Rkms in this year.

New services: Global Voice continues to launch new services higher up on the value change, to improve the mix of revenue from retail and enterprise customers. This will give us sustained captive traffic to meet the competitive challenges.

We launched Managed Contact center and Voice Content services during this quarter. Some major international contact center customers are already on board. We will continue to expand our International Retail voice business to new geographies. We will also aggressively expand the International Hubbing voice business. We will leverage our NLD network and the highest number of interconnects to increase our NLD traffic carriage. New players will also provide us opportunity for sale of infrastructure and bandwidth.

I will now hand over to my colleague, Prakash Bajpai.

Prakash Bajpai:

Thank you VK, and good day to all participants. Let me now briefly describe the performance of the broadband segment of the enterprise business, during this quarter. It has been yet another successful quarter of high growth, wherein we continued to remain the most preferred Premiere Integrated Solution provider for top enterprises and also maintained our leadership position in voice and data networking solutions and managed internet data center products.

This is evident in the high growth of 33% in the order booking over the previous quarter which exceeded Rs. 3.1 billion or roughly US$ 80 million – the highest ever in any quarter.

About 38% of new order value came from existing customers, which is a strong endorsement of the quality of our services, range of products and the service levels. Besides the repeat business from top corporates, we are happy to report the addition of names like Bennett & Coleman, AT&T, Bank of America, WNS, Spectranet, Ramco Systems, HSBC, HUDA and State Government of West Bengal to our client list.

With the West Bengal government, we will be setting up over 2,000 rural multimedia kiosks to provide internet and e-governance applications to the masses.

Among the major implementations that we completed this quarter, I would like to highlight the launch of Premier Internet Package over WiMax broadband wireless network. During this quarter, we launched the Integrated Business Internet Package – a unique offer in the market for the SMBs segment, which provides high speed multi-user internet for office, Wireless LAN, business mail and messaging solution and a full security package including firewall, anti-spam, anti-virus protection as one integrated solution.

We also just completed the initial rollout of our planned WiMax deployment. We have activated the network in Pune and Bangalore to provide full city coverage, which enables us to offer Business Internet Package to all SMB customers on "anyone, anywhere, in any building basis". The offer and value proposition has been very well received in the market and in only 30 days of launch in these 2 cities alone, we have already acquired over 5,000 customers and have an additional 5,000 prospects in the funnel. Our total SMB customer base now stands at over 23,000.

We anticipate monthly subscriptions from our broadband wireless service for SMBs segment should yield revenues from a minimum of Rs. 1000 to Rs. 10,000 per subscriber per month that is US$ 25 to US$ 250 per subscriber per month, depending on the package. We are targeting around 100,000 broadband wireless subscribers across the selected cities in the first year.

In the next stage of roll out, we will be activating the broadband wireless network in a further top 10 cities, which will be completed before the year end. In rolling out the broadband wireless network, we are able to utilize the extensive metro fiber rings that we have in place as backhaul for the wireless access network, thereby significantly reducing the cost of our roll out. We are planning to invest Rs. 1.5 billion or roughly US$ 40 million in the broadband wireless network during this financial year.

Talking about the financial performance of this quarter, the Enterprise segment of Broadband continues to be our fastest growing business. The quarterly revenue grew by 16% over the previous quarter to Rs. 3.8 billion and our EBITDA margins remain at the industry leading healthy level of 48%, reflecting the revenue quality.

Having completed the business districts in top 40 cities, we are now continuing to deepen our building connectivity to premium residential neighborhoods as well.

We are thereby extending the IP centric metro Gigabit Ethernet based last mile, which will allow us to support unique multi-play offerings such as high speed secured internet, voice telephony including Building Intercom system, Digital Home networking that is Home PCs or server and Home WiFi systems, video surveillance applications, and of course IPTV with real video on demand and high definition TV service with full interactivity.

On a cumulative basis we have now connected about 600,000 buildings already. After a complete diligence and evaluation for a scalable solution for IPTV eco-system, we have selected Microsoft as our technology partner, and we are now preparing the platform with integrated BSS-OSS back-end to launch fully interactive IPTV services in Delhi and Mumbai before the end of this year.

The DTH platform will also be ready for launch of services before the end of the year. We have finalized the latest MPEG4 compression technology and system integration is already in progress. Transponder space has been allocated from the Department of Space and the head end and other equipment are under completion at this point in time.

I will now hand it back to Dan.

Daniel Newman:

Thanks, Prakash. We now will open the call to the questions and answers. Time is limited and can I please ask you to focus your questions on major strategic and business development issues. And for each participant to ask no more than two questions each. Moderator, can we take the first question please.

Operator:

Sure sir. At this time, if you wish to ask a question, please press "star, one" on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the "hash" or the "pound" key.

The first question comes from Mr. Sundeep Bihani from Lehman Brothers, over to you sir.

Sundeep Bihani:

Good evening, congratulations on the great set of numbers. Two questions – first of all in terms of subscribers, as you double your coverage, what would you anticipate as monthly net adds, let's say in 12 to 15 months time when you have almost double the coverage and double the towers? And secondly can you help me understand, what was the underlying revenue growth in your global business, if we exclude foreign exchange fluctuations? Thank you.

S.P. Shukla:

As far as subscriber forecast is concerned that's talking about forward guidance. So I would confine myself to saying that industry growth continues to be robust. I do notice that in the month of June, 7 million subscribers were added. And we expect that subscriber growth momentum will continue in the coming quarters rising up to 8 or 9 million a month. And Reliance will have its dominant share of the market as we have been recording in the past. I will pass on to Punit to answer your next question.

Punit Garg:

In terms of growth in global business on a quarter-on-quarter basis our net revenues have grown 6.2% and on the EBITDA margin front we have grown from 24.1% to 24.9% in this quarter.

Operator:

Thank you, sir. Next question comes from Mr. Suresh Mahadevan, UBS Securities. Please go ahead, sir.

Suresh Mahadevan:

Yes. Good afternoon. Thanks a lot for the call and congratulations on an excellent set of numbers. I just had one question. On your handset initiative, could you just give us an idea of what the blended handset subsidy per handset would work out to roughly, thank you.

S.P. Shukla:

Thank you, this is S.P. Shukla. We do not disclose such business confidential information. As we have said in the past, we look at the overall integrated package of handset and the overall life cycle value of a customer and that seen over a period of 24 months or 36 months makes for a sound economic case.

Anil Dhirubhai Ambani:

I think Suresh, I will just add in that directionally speaking, we believe that going forward our handset subsidies are going to show a declining trend compared to where we were in 2004, 2005, 2006 and I think 2007, 2008 and 2009 should be much, much lower going forward.

Suresh Mahadevan:

Thank you.

Operator:

Thank you sir, next question comes from Henry Cobbe from Nevsky Capital. Please go ahead sir.

Henry Cobbe:

Hello. Thanks very much for the call. Can you just update us on your consolidated capex guidance for the mobile, global and broadband businesses, and also what your effective tax rate will be for this year and lastly what percentage of mobile revenues are from handsets sales?

Anil Dhirubhai Ambani:

As far as the consolidated capex guidance is concerned, we have said US$ 2.5 billion plus US$ 1.5 billion. We are very much on track. As I have mentioned, we have already committed nearly all the capex for the year as far as the Indian business is concerned. It's already done and we are on our way to project execution.

Effective rates of taxation, we believe will be the minimum alternative tax rates as the cap rates is the way we look at it.

And we don't give any breakdowns between airtime sales and network sales and handset sales. We don't give these breakdowns.

Henry Cobbe:

Thank you.

Operator:

Thank you, sir. Next question comes from Mr. Srinivas from Deutsche Bank. Over to you, sir.

Srinivas Rao:

Thank you very much. Sir, I just wanted a comment on the current status of Qualcomm on the royalty issue. Has there been any progress on that because now Reliance Communications is doing a very large capex program on CDMA. So the commitment to CDMA seems to be very much there so what's the status on the Qualcomm relationship?

Anil Dhirubhai Ambani:

I think that we are making a very large commitment on our wireless network. As you are already familiar we will be going to over 10,000 towns in our GSM circles. So if that is the case, we are also expanding our CDMA coverage. We have always believed that customers are technology neutral. And we are progressing on both. Also it's important to see that in circles where we are operating GSM and CDMA both, we have an absolute dominant market share of 32%, which no other mobile operator really enjoys.

And considering our Reliance Classic range of handsets and the progress that we made in terms of prices, we are getting the relevant support from our technology partners like Qualcomm and others to ensure that the competitive ecosystem is not only maintained but sustained.

Srinivas Rao:

Thank you, sir.

Operator:

Thank you, sir. Next question comes from Mr. Vinay Jaising from Morgan Stanley. Please go ahead sir.

Vinay Jaising:

Thank you. I have two questions. Firstly on the margins. The margins have been phenomenally good, obviously great hike compared to the last quarter. My question is on the SG&A expenses, they seem to have risen by about 381 basis points. You did mention that the subsidies are on the decline, directionally. I don't know if the subsidy comes in this or is it just advertisements because of which the SG&A expenses have gone up. If you can throw some guidance there, what do we look forward to in the quarters to come and is this margin sustainable and expected to rise.

And my second question, sorry it's a repeat, but you know you've invested about US$ 450 million odd in this quarter, and expect to invest US$ 3.5 billion for the rest of the year. Which means we'll have a huge capex rollout happening in the next couple of quarters. So I assume that's happening. Just a reaffirmation of that. Thank you.

Anil Dhirubhai Ambani:

One is that the capex guidance is, as I said, very much on track. We spoke about US$ 2.5 billion in India this year (excluding towers) and US$ 1.5 billion on a global basis for FLAG NGN over roughly three years. So don't combine both these as far as India is concerned. We have already committed more than Rs. 10,000 crores of capex for India. So I think that, we are well on our way to achieve the capex guidance of US$ 2.5 billion for India.

Secondly, the SG&A that you are looking at is clearly... you know, we have become the second largest handset brand in India with Reliance Classic. We have a combined volume, which is more than Motorola, Sony Ericsson, LG and Samsung - all four put together. So there is pre-investment going on in the Classic range of handsets. Also, there is pre-investment as we go from 12,000 towers to 40,000 towers - hiring people, putting all our systems in place, etc. All that is what is being reflected in the SG&A.

So the way I look at it is that in spite of this huge increase in SG&A, we've got our EBITDA and our EBITDA margins to where they are. If that SG&A was lower, we would have had an even higher growth overall.

To your question on sustainability of margins, I believe that our margins are sustainable in a contextual framework. We have to be completely vigilant of what is happening in the competitive landscape. But overall, I believe that both from a cost perspective, our efficiency perspective and our market penetration and market share perspective, I think that these ranges are sustainable.

Vinay Jaising:

Thank you so much, sir.

Operator:

Thank you, sir. Next in line we have question from Mr. Vatsal Shah from Sushil Finance. Please go ahead, sir.

Vatsal Shah:

Yes. Okay. Congratulations on your numbers. I just wanted to know, what can you talk about the 3G policy by TRAI on CDMA, which has not been allotted in the 1900 MHz segment?

Anil Dhirubhai Ambani:

The TRAI has got recommendations, which have been on the website for many, many months, and what you are seeing in some recent newspaper reports is what the TRAI report has on the website for the last many months. So there is nothing new.

Operator:

Thank you, sir. Next question comes from Mr. Shashank Panda from DDAV. Please go ahead sir.

Shashank Panda:

Good evening. First, my question is with regard to your IPTV rollout plans, what exactly are you talking about in concrete revenue terms going forward, and the exact rollout plans that you could talk about?

Prakash Bajpai:

Right now we are not talking about the financial plans for this. At this time we are busy preparing for the platform that will be rolled out in the cities of Delhi and Mumbai.

Shashank Panda:

And my second question would be on how long would it be before we could start seeing some contribution and if you could give us some sense of exactly what kind of margins this business will enjoy

Prakash Bajpai:

We are not giving any forward looking positions at this time, and as far as timeline is concerned, we have said before the end of the year.

Shashank Panda:

Okay. Thanks a lot.

Operator:

Thank you, sir.

Shubham Majumder:

Parimala, this is Shubham.

Operator:

Mr. Majumder, do you have any question?

Shubham Majumder:

Yes. I have two questions. Can I go ahead?

Operator:

Yes sir. You can go ahead.

Shubham Majumdar:

Hello everyone. This is Shubham Majumder from Macquarie. I have two questions. One is, you know, it's a little long-term perspective. About 12 months or 15 months back when you outlined your GSM strategy, one of the key things that was being cited was the ecosystem in the CDMA handset and the CDMA network equipment space from a three to four year perspective, possibly around 2010 or so.

You have obviously laid out a very clear execution path and a very profitable path based on the CDMA handset launch strategy at low prices in the last three to four months. Has there been a significant change in that assessment with regard to the ecosystem outlook two or three years out?

And secondly, is GSM led growth in 14 incremental circles key to your medium-term growth outlook. If you do not happen to get it, would this seriously alter or impact your growth plans?

Anil Dhirubhai Ambani:

As far as your question number one is concerned, I think that the ecosystem challenges are continuing and we have to work hard in trying to find solutions and innovations on all dimensions. Two, as far as GSM is concerned, we believe that it is still very much something that we would want to pursue, and I highlighted this at the end of our financial year results that we can do a nationwide GSM rollout in about a year for about a US$ 1 billion in capex.

Shubham Majumder:

Right. And inorganic strategy is something that is not required to achieve that?

Anil Dhirubhai Ambani:

I fundamentally do not believe that there are any inorganic opportunities of scale and magnitude.

Shubham Majumder:

Right. Thank you.

Operator:

Thank you Mr. Majumder. Next in line we have Mr. Rahul Singh from Citigroup. Please go ahead, sir.

Rahul Singh:

Yes. Good evening everyone. My question was on the financials, on the EBITDA, as reported in the Others segment. The delta which we see on a sequential quarter-on-quarter basis from a positive of about Rs. 158 million to a negative of Rs. 284 million, is that reflective of how handset subsidies moved or handset discounts moved on a quarter-on-quarter basis, or is there something else which is making that happen?

Daniel Newman:

Rahul, I think we already answered the question about SG&A. Clearly, the scale of our Classic handset business involves some costs. You can't term that as a subsidy or a discount or whatever adjective you use.

Rahul Singh:

So, on a quarter-on-quarter basis that's the only factor, basically…

Daniel Newman:

Yes.

Rahul Singh:

Okay. Thank you.

Operator:

Thank you, sir. Next in line we have Mr. Rajeev Sharma from HSBC Securities. Please go ahead sir.

Rajeev Sharma:

Thanks for the opportunity. Just two questions, first on we have seen some reports on dual mode handsets which can support both CDMA and GSM. What is the update on that and don't you think that these will lead to some kind of churn in your subscriber base?

And second question is on the margins. As a lot of the network is still on rollout, so your margins are not absorbing the March 2008 end kind of network expenses. And there is a rural rollout as well. So do you think these margins are sustainable as they are factoring these two elements. Thanks.

Anil Dhirubhai Ambani:

I think we have already covered the fact that we believe that margins are sustainable in a range, while going forward. And on your first question on dual mode handsets, it is one more product offering to give choice to our customers. I don't think that some 100 million GSM/CDMA handsets are going to be sold anywhere in the world, nor in India.

Operator:

Thank you, sir. We have the next question from Mr. Sanjay Chawla from JPMorgan. Please go ahead, sir.

Sanjay Chawla:

Hi, thank you very much for the call. I have two questions. One is, if you could just clarify the period over which you are recognizing your life time validity revenues. I believe there has been a change in the amortization policy. If you could just also give the associated impact on this quarter's revenues.

Anil Dhirubhai Ambani:

We have not changed anything. Our revenue recognition policy remains based on churn rates.

Sanjay Chawla:

Sir, I'm looking at the notes to the accounts in the BSE filings. It seems to state that there has been a re-computation in the estimates. So clarify on that.

Second is, if you could give us the number of BTS's at the end of March and now at end June 2007?

Daniel Newman:

Sanjay, on your first question, the amortization period depends on the customer segments, and there are a lot of different lifetime plans. And it has to be adjusted in accordance with the churn rate, something which is required by the accounts. That's all.

Sanjay Chawla:

Dan, the churn rate I could not locate in the quarterly report. If you could just, you know...

Daniel Newman:

Yes, everyone has been told how we calculated churn when we went through the reverification exercise. In the next quarter, we'll commence disclosing it again. As you know, our fundamental underlying churn is exceptionally low. Just to avoid this issue that everyone had about the maths, whether to exclude the deactivated subscribers at the beginning, at the end, or half way in between, what revenue adjustments to make to the accounts, we have excluded disclosing this twice. Okay, next question please.

Operator:

Next is a follow up from Mr. Henry from Nevsky Capital. Please go ahead sir.

Henry Cobbe:

Hi, guys. Thanks for this follow-up question. And just on your depreciation, looking at your depreciation expense relative to average gross fixed assets. It came down to something like 7% in the June quarter which is an implied life of 14.2 years and this compares to 9.5% or 10.5 years in the June quarter '06 or 8.5% or 11.8 years in full year March '07. So is there a change to your depreciation policy, because it seems like given the capex that has gone into the ground, the depreciation is being stretched up a little bit longer.

And secondly, just going back to the mobile revenues, I am not asking you to split them out or not, but I just want to find out are handset revenues booked in the mobile division or are they booked in the Other division?

Daniel Newman:

Henry, in the prior quarter that is the fourth quarter of the last fiscal year, there was some provision to accelerate depreciation of assets. So that's why you see what may appear superficially to be a slightly strange trend. It's nothing material anyway. And as regard handsets, we have made this point categorically on many occasions. There is nothing in the wireless segment that relates to equipment sales.

Henry Cobbe:

Okay. Thank you.

Operator:

Thank you, sir. Next question we have from Minar Majumdar from Kotak Securities. Please go ahead.

Minar Majumdar:

Hi, my question -- I have a couple of questions addressed primarily to RTIL. Firstly, I wanted to know what is the tenancy ratio and the percentage of towers shared and secondly, the capex and opex per tower. Thank you.

Daniel Newman:

We do not share that information. The point I made at our analyst meeting on RTIL is that when seven very hard-nosed leading global investors place a value on the business, the debate about assumptions you put in the model is over. May we have the next question please.

Operator:

Now, we have last in queue Mr. Anuj Sharma from ASK Investments. Please go ahead sir.

Anuj Sharma:

Hi congratulations on the results. Can you just quantify for me the forex gains in the quarterly results?

Anil Dhirubhai Ambani:

There is a note available for you to see in the disclosed results. The amount there is Rs. 210 crores as per the stock exchange notification.

Operator:

Next is a follow up question from Mr. Henry Cobbe from Nevsky Capital. Please go ahead sir.

Henry Cobbe:

Hi, there. You gave in your capex budget US$ 2.5 billion for India, US$ 1.5 billion for global business. Does that combined number include or exclude the towerco project?

Anil Dhirubhai Ambani:

Exclude.

Henry Cobbe:

Exclude. Okay thank you.

Operator:

Thank you, sir. At this time there are no more questions.

Reliance Communications
Anil Dhirubhai Ambani Group

Anil Dhirubhai Ambani:

Thank you so much.

Operator:

That does conclude our conference for today. Thank you for participating. You may all disconnect now.