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

Reliance Communications Limited

(Incorporated as a Private Limited Company on July 15, 2004 under the Companies Act, 1956)
Registered office: H Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai - 400710

July 31, 2006

Supplemental Disclosures

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

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

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

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

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

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

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

Disclaimer: This communication does not constitute an offer of securities for sale in the United States. Securities may not be sold in the United States absent registration or an exemption from registration under the U.S. Securities Act of 1933, as amended. Any public offering of securities to be made in the United States will be made by means of a prospectus and will contain detailed information about the Company and its management, as well as financial statements.

TABLE OF CONTENTS

1. Overview..4

2. Financial Highlights 10

3. Key Performance Indicators 16

4. Management Discussion and Analysis 18

5. Basis of Presentation of Financial Statements 31

6. Proforma Financial Statements 37

7. Accounting Policies 41

8. Glossary 46

1. Overview

1.1. Introduction

Reliance Communications Limited ("RCOM" or "the Company") is India's largest integrated communications service provider in the private sector with over 23.5 million individual, enterprise, and carrier customers as at June 30, 2006.

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

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

1.2. Strategic Business Units

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

1.2.1. Wireless

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

Our presence in the wireless market increased significantly with the commercial launch nationwide of our CDMA based services in mid-2003. Within three years, we have become the largest provider of wireless communication services in the country, as measured by voice and data minutes of use. As at June 30, 2006, we had over 22.5 million wireless customers in aggregate, representing a 20.6% market share of the All India wireless market. We had the largest in-service base of multimedia-enabled handsets (over 15 million) and the largest number of users of such services (7.9 million customers). In addition, we are the largest PCO operator in the private sector with a 51.7% market share (as at March 31, 2006).

1.2.2. Global

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

We entered the long distance market in India in mid-2003, and have become the largest carrier of international voice minutes, with a market share of over 40%. In addition, we have over 600,000 active customers for our Reliance India*Call* service, with usage accounting for around 40% of total retail market calls from the United States to India.

We offer national and international (submarine cable) network infrastructure on both an Indefeasible Right of Use ("IRU") and leased circuit basis, internet bandwidth, and managed data services to other carriers and enterprises globally. We own and operate through FLAG one of the largest private submarine cable systems in the World, directly connecting to 28 countries from the East coast of the United States, to Europe, the Middle East, India, South and East Asia, through to Japan. We are currently constructing the FALCON cable system, which will directly connect 12 countries in the Gulf region and North Africa to Europe and Asia. FLAG and FALCON provide unique on-net global connectivity and our long term customers include more than 200 global carriers and more than 400 large enterprises. Through FLAG and FALCON, we are the largest provider of international bandwidth in the Middle East and Asia. Ownership of these assets further allows us to leverage our strengths in the Indian market.

1.2.3. Broadband

We offer the most complete portfolio of enterprise voice, data, video, internet and IT infrastructure services of any operator in India. These services range from national and international private leased circuits, broadband internet access, audio and video conferencing, through to high value-added solutions such as MPLS-VPN, Centrex, and managed internet data centre ("IDC") services.

We launched our enterprise broadband services in the first half of 2005, focusing initially on the top 30 cities in India. In these cities, we are leveraging our existing metro fibre optic networks to establish direct building connectivity on-net. We currently have over 180,000 buildings directly connected to our network and over 320,000 access lines.

Our primary building access technology is metro Ethernet LAN over high grade copper cables, which offers performance and cost advantages versus other access technologies in areas with high service potential. In cities where we are not currently providing wireline direct building connectivity, we have selectively deployed wireless LMDS to access targeted buildings in accordance with our customers requirements.

We have established an enterprise customer base that includes many of the largest Indian enterprises and MNCs and are expanding rapidly in the SME segment. We are already the market leader in IDC services (Reliance Data Center) with an estimated 50% market share and are a leading provider of MPLS-VPN and Centrex solutions.

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

1.3. Network and Operating Facilities

Our CDMA wireless service operates nationwide, while our GSM wireless service operates in 7 licensed service areas ("Circles") in Eastern and Central India. Our wireless network covers 3,881 census towns and 245,728 non-census towns and villages, and has capacity for 30 million customers. We believe that this is the largest wireless network in India in terms of coverage and capacity. CDMA-2000 1xRTT technology is deployed throughout our CDMA network nationwide, offering bandwidth of 144 Kbps.

Our national inter-city long distance network is the largest next generation network in India, with over 60,000 route kilometres of ducted fibre optic cables. In addition, we have over 20,000 route kilometres of ducted fibre optic cables installed in the leading cities in India. The entire inter-city and metro fibre optic backbone network is deployed in a ring and mesh architecture and is MPLS enabled. In addition, we have over 200,000 sq. ft. of IDC capacity in multiple locations. Our network operating centre in Navi Mumbai, India, is one of the most advanced in the world. The entire range of our products and services is enabled by streamlined, fully integrated, flow through operating and business support systems. These facilities provide us with by far the most superior platform in India for offering bandwidth intensive, feature rich, converged services and solutions for consumers, enterprises, and carrier customers with virtually limitless scalability.

Our national networks are integrated with our international networks – the 54,000 route kilometres FLAG cable systems and the 11,500 route kilometres FALCON cable system which is currently under construction.

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

1.4. Principal Operating Companies

RCOM currently holds direct investments in three principal operating companies: Reliance Infocomm Limited ("RIC"), Reliance Communications Infrastructure Limited ("RCIL), and Reliance Telecom Limited ("RTL"). The activities and assets of each of these companies and their respective subsidiaries are summarized below.

RIC provides CDMA-based wireless, wireline, and long distance services in India and overseas. RIC also owns FLAG Telecom Group Limited ("FLAG") which provides international connectivity services and infrastructure. RIC's major assets are the CDMA wireless network, the Reliance World retail chain, the contact centres, and the FLAG and FALCON submarine cable systems.

RCIL provides wireless multimedia (Reliance Mobile World) and internet access (Reliance Netconnect) services to customers of RIC. It also undertakes wireless handset distribution and marketing, IDC services, and provision of network IRUs within India. Its major assets include the national long distance and metro fibre optic networks and IDC facilities. National and metro fibre is utilized by RIC under a long-term IRU agreement with RCIL.

RTL provides GSM-based wireless services in 7 Circles and owns the GSM wireless network.

1.5. Proposed Corporate Reorganization

Under the ownership structure resulting from the demerger and vesting, RCOM does not own a majority stake in any of its principal operating companies. This legacy structure has significant drawbacks. Accordingly, on March 12, 2006, the Board of RCOM approved a reorganization whereby RIC will be merged fully with RCOM and become an operating division, and RCIL and RTL will become wholly-owned direct subsidiaries of RCOM. In addition, RCOM will acquire the Dhirubhai Ambani Knowledge City and other valuable properties used in its businesses. The reorganization will be effected by way of an exchange of shares under a scheme of amalgamation and arrangement and does not involve any cash transactions.

The scheme of amalgamation and arrangement has been approved by shareholders and by the Hon'ble High Court of Gujarat and the Hon'ble High Court of Judicature at Bombay. We expect the scheme to become fully effective by the end of the current quarter.

Pending full implementation of the proposed corporate reorganization, we are publishing proforma consolidated financial statements to enable shareholders to gain a better understanding of RCOM. The proforma consolidated financial statements have been prepared as if the proposed corporate reorganization had already been completed.

2. Financial Highlights

Unaudited proforma financial results for the quarter ended June 30, 2006 as per Indian GAAP. The previous quarter figures have been regrouped and reclassified, wherever required. In the tables below, "Qtr ended 30/6/06" refers to the three month period ended June 30, 2006 and "Qtr ended 31/3/06" refers to the three month period ended March 31, 2006. Exchange rate for conversion of Indian Rupees to United States Dollars is Rs 45.87 = US$ 1.00 for the quarter ended June 30, 2006 and Rs 44.48 = US$ 1.00 for the quarter ended March 31, 2006, being the noon buying rates as announced by the Federal Reserve Bank of New York on June 30, 2006 and March 31, 2006 respectively.

2.1. Summarized Proforma Consolidated Statement of Operations

(Rs Million, except ratios)

Particulars	Qtr ended 31/3/06	Qtr ended 30/6/06	Q-on-Q Growth (%)
Total revenue	29,704	32,501	9.4%
Net revenue	19,413	23,215	*19.6%*
EBITDA	10,476	12,062	*15.1%*
Cash profit from operations	9,486	10,641	*12.2%*
Profit before tax and extraordinary item	4,541	5,549	*22.2%*
Extraordinary item	374	150	*-59.9%*
Profit before tax	4,167	5,399	*29.6%*
Net profit	4,029	5,127	*27.3%*
EBITDA margin (%)	*35.3%*	*37.1%*	

(US$ Million)

Particulars	Qtr ended 31/3/06	Qtr ended 30/6/06	Q-on-Q Growth (%)
Total revenue	668	709	*6.1%*
Net revenue	436	506	*16.1%*
EBITDA	234	263	*12.4%*
Cash profit from operations	213	232	*8.9%*
Profit before tax and extraordinary item	102	121	*18.5%*
Extraordinary item	8	3	*-61.1%*
Profit before tax	94	118	*25.6%*
Net profit	91	112	*22.8%*
EBITDA margin (%)	*35.3%*	*37.1%*	

Note: The extraordinary item of Rs 150 million in quarter ended June 30, 2006 relates to customer verification costs. The extraordinary item of Rs 374 million in quarter ended March 31, 2006 relates to employee restructuring costs. Foreign exchange adjustments, which were previously grouped and classified as part of "SG&A" in "Operating expenses", are now grouped with net interest and classified as "Finance charges". Accordingly, EBITDA for the quarter ended March 31, 2006 has been restated on this basis.

2.2. Summarized Proforma Consolidated Balance Sheet

(Rs Million, except ratios)

Particulars	As at 30/6/06
Assets	
Net fixed assets	222,164
Goodwill	2,308
Investments	129
Current assets, loans and advances	44,259
Total assets	268,860
Liabilities and stockholders equity	
Total current liabilities and provisions	122,096
Net debt	24,410
Total liabilities	146,506
Stockholders equity	122,255
Minority interest	99
Total liabilities and stockholders equity	268,860
Net debt to annualized EBITDA (x)	*0.51*
Net debt to stockholders equity (x)	*0.20*
Book value per equity share (post merger) (Rs)	*60.00*

(US$ Million)

Particulars	As at 30/6/06
Assets	
Net fixed assets	4,843
Goodwill	50
Investments	3
Current assets, loans and advances	965
Total assets	5,861
Liabilities and stockholders equity	
Total current liabilities and provisions	2,661
Net debt	533
Total liabilities	3,194
Stockholders equity	2,665
Minority interest	2
Total liabilities and stockholders equity	5,861

Note: Net fixed assets includes capital work-in-progress.

2.3. Summarized Proforma Statement of Operations by Segment

2.3.1. Wireless

(Rs Million, except ratios)

Particulars	Qtr ended 31/3/06	Qtr ended 30/6/06	Q-on-Q Growth (%)
Gross revenue	21,200	24,320	*15%*
Net revenue	12,645	16,544	*31%*
EBITDA	7,571	8,746	*16%*
EBIT	3,998	5,144	*29%*
EBITDA margin (%)	*35.7%*	*36.0%*	

2.3.2. Global

(Rs Million, except ratios)

Particulars	Qtr ended 31/3/06	Qtr ended 30/6/06	Q-on-Q Growth (%)
Gross revenue	14,158	12,340	*-13%*
Net revenue	7,184	7,174	*0%*
EBITDA	2,632	2,842	*8%*
EBIT	1,355	1,554	*15%*
EBITDA margin (%)	*18.6%*	*23.0%*	

2.3.3. Broadband

(Rs Million, except ratios)

Particulars	Qtr ended 31/3/06	Qtr ended 30/6/06	Q-on-Q Growth (%)
Gross revenue	1,948	2,271	*17%*
Net revenue	1,685	1,872	*11%*
EBITDA	606	882	*46%*
EBIT	242	518	*114%*
EBITDA margin (%)	*31.1%*	*38.8%*	

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

2.3.4. Others

(Rs Million, except ratios)

Particulars	Qtr ended 31/3/06	Qtr ended 30/6/06	Q-on-Q Growth (%)
Other income	440	1,028	*134%*
Other expenses	(182)	(798)	*-338%*
EBITDA	*258*	230	*-11%*
EBIT	*26*	(30)	*-213%*

Note: "Other income" in 2.3.4 above represents revenue earned from operating activities not included in segments (as defined). "Other expenses" represents expenses related to such activities and unallocated corporate expenses. Foreign exchange adjustments, which were previously grouped and classified as part of "Other expenses", are now grouped with net interest and classified as "Finance charges". Accordingly, the figures for "Other expenses" and "EBITDA" of the "Others" segment for the quarter ended March 31, 2006 have been restated on this basis.

2.4. Contribution to Revenue by Segment

(Rs Million, except ratios)

Segment	Qtr ended 31/3/06		Qtr ended 30/6/06	
	Revenue	% of Total	Revenue	% of Total
Wireless	21,200	*56%*	24,320	*61%*
Global	14,158	*38%*	12,340	*30%*
Broadband	1,948	*5%*	2,271	*6%*
Others	440	*1%*	1,028	*3%*
Sub Total	37,746	*100%*	39,959	*100%*
Eliminations	*(8,042)*		*(7,458)*	
Total	29,704		32,501	

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

2.5. Contribution to EBITDA by Segment

(Rs Million, except ratios)

Segment	Qtr ended 31/3/06		Qtr ended 30/6/06	
	EBITDA	% of Total	EBITDA	% of Total
Wireless	7,571	69%	8,746	*69%*
Global	2,632	24%	2,842	*22%*
Broadband	606	5%	882	*7%*
Others	258	2%	230	*2%*
Sub Total	11,067	100%	12,701	*100%*
Eliminations	*(591)*		*(639)*	
Total	10,476		12,062	

Note: Foreign exchange adjustments, which were previously grouped and classified as part of the "Others" segment, are now grouped with net interest and classified as "Finance charges". Accordingly, EBITDA of the "Others" segment for the quarter ended March 31, 2006 has been restated on this basis.

2.6. Investment in Projects by Segment

(Rs Million, except ratios)

Segment	Qtr ended 30/6/06		Cumulative to 30/6/06	
	Rs Million	% of Total	Rs Million	% of Total
Wireless	8,529	*54%*	155,117	*56%*
Global	6,732	*42%*	80,155	*29%*
Broadband	522	*3%*	26,022	*10%*
Others	76	*1%*	14,169	*5%*
Total	15,859	*100%*	275,463	*100%*

Note: Investment in projects comprises gross fixed assets, intangible assets, capital work-in-progress, and unamortised one time entry fee paid. Based on a review of asset allocation to business segments, assets have been reallocated from the "Broadband" segment to the "Global" segment. The reallocated assets primarily consist of intra-circle transmission networks. The categories of assets allocated to each segment are set out in Section 5.

3. Key Performance Indicators

The financial figures used for computing ARPU, SMS revenue, non-voice revenue, LD net revenue, and ARPL are based on Indian GAAP. Data used for computing wireless market share is derived from reports published by industry associations. Although we believe that such data is reliable, it has not been independently verified. Definitions of terms are set out in Section 8. "Qtr ended 30/6/06" refers to the three month period ended June 30, 2006; "Qtr ended 31/3/06" refers to the three month period ended March 31, 2006.

3.1. Wireless

Metric	Unit	Qtr ended 31/3/06	Qtr ended 30/6/06
Circles operational	Nos	23	23
Census towns covered	Nos	3,824	3,881
Non-census towns/villages covered	Nos	242,814	245,728
Wireless customers	Nos	20,211,674	22,522,329
GSM Wireless	Nos	*1,904,028*	*2,316,771*
CDMA Wireless	Nos	*18,307,646*	*20,205,558*
Wireless market share (All India)	%	21.0%	20.6%
Wireless net adds	Nos	3,181,911	2,310,655
Market share – wireless net adds	%	21.5%	17.6%
Pre-paid % of total wireless	%	79.3%	79.4%
Pre-paid % of wireless net adds	%	89.0%	80.0%
Wireless ARPU	Rs/sub	379	379
Wireless net ARPU	Rs/sub	226	259
Wireless churn	%	2.1%	2.6%
Wireless minutes of use (MoU)	Bn mins	29.69	31.44
Wireless MoU per customer/month	Min/sub	532	491
Wireless revenue per minute (RPM)	Rs/min	0.71	0.77
SMS revenue (% of ARPU)	%	1.7%	1.8%
Non-voice revenue (% of ARPU)	%	6.1%	6.2%
Wireless multimedia users	Nos mn	6.4	7.9
Wireless internet users	Nos	320,440	354,673

3.2. Global

Metric	Unit	Qtr ended 31/3/06	Qtr ended 30/6/06
Total ILD minutes	Mn mins	1,188	1,214
Total NLD minutes	Mn mins	2,755	3,085
Long distance (LD) net RPM	Rs/min	0.77	0.67

3.3. Broadband

Metric	Unit	Qtr ended 31/3/06	Qtr ended 30/6/06
Circles operational	Nos	18	18
Towns active (wireline only)	Nos	30	30
Access lines	'000	256	322
Access line net adds	'000	39	66
ARPL	Rs/line	2,742	2,618
Buildings directly connected	Nos	101,741	180,759

4. Management Discussion and Analysis

4.1. Key Corporate Developments

4.1.1. High Court Approval for Proposed Corporate Reorganization

Under the ownership structure resulting from the demerger and vesting, RCOM does not own a majority stake in any of its three principal operating companies or other affiliates. The current ownership by RCOM of the principal operating companies is shown below:

Principal Operating Company	% Equity Shareholding
Reliance Infocomm Limited ("RIC")	45.34
Reliance Communications Infrastructure Limited ("RCIL")	45.00
Reliance Telecom Limited ("RTL")	35.60

Note: In addition, RCIL holds 45.71% of RIC. 100% of the preference shares of RTL were also vested in RCOM. The balance of the equity shareholdings in RIC, RCIL, and RTL are owned entirely by the Promoters of RCOM.

This legacy structure has significant drawbacks. As a pure holding company with no subsidiaries, RCOM may face issues with regard to resource mobilization, transparency, and valuations.

In order to address the situation, on March 12, 2006, the Board of RCOM approved a reorganization whereby RIC will be merged fully with RCOM and become an operating division, and RCIL and RTL will become wholly-owned direct subsidiaries of RCOM. In addition, RCOM will acquire the 134 acre Dhirubhai Ambani Knowledge City (DAKC) complex, and several other properties used in its businesses, which are currently privately owned.

The proposed corporate reorganization will be effected by way of an exchange of shares under a scheme of amalgamation and arrangement and does not involve any cash transactions. The scheme of amalgamation and arrangement has been approved by shareholders and by the Hon'ble High Court of Gujarat and the Hon'ble High Court of Judicature at Bombay. We expect the scheme to become fully effective by the end of the current quarter.

Under the terms of the proposed reorganization, 821.48 million new shares of Rs 5 each of RCOM will be issued in exchange for the entire Promoters direct equity shareholdings in RIC, RCIL, and RTL and as consideration for the properties. We currently have 1223.13 million shares of Rs 5 each in issue.

Post reorganization, based on the shareholding pattern at June 30, 2006, the shareholding pattern of the Company will be as follows:

Category	% Shareholding
Domestic Institutions / Mutual Funds	6.21%
Foreign Investors – FIIs, NRIs, GDRs and others	14.44%
Public	13.91%
Reliance ADA Group	65.44%
Total	100.00%

4.1.2. Invigorating the Brand

During May 2006, we unveiled our new corporate identity, as part of a coordinated exercise across the entire Reliance Anil Dhirubhai Ambani Group. The changeover was implemented within 10 days nationwide, the biggest and fastest brand changeover ever undertaken in India.

The objective of this changeover is to ensure a unique and consistent identity across all the product and service offerings of Reliance ADA Group. Reliance ADA Group is one of the Top 3 business groups in India. It is perceived to be audacious, fast and ambitious, with the ability to accomplish the impossible. Our new corporate identity reflects our belief and commitment to shape a better future, to leverage our strength in managing large scale operations even as we create best-in-class products and services, to create a higher quality of life, and to give wings to a million dreams and aspirations. It depicts our resolve to surpass the rising expectations of our consumers.

Our organizational philosophy is to Think Bigger, Think Better. This philosophy is part of our DNA and our driving force. We are not just about scale and size, we are also about the pursuit of excellence, the integrity of our values and the quality of our products and services. This has become our mantra and a way of life across Reliance ADA Group.

Our new corporate colours, Reliance Blue and Reliance Red are strong in their symbolism and meaning. The majestic blue represents stability, confidence, and optimism. The auspicious red represents energy, dynamism, passion, and determination. Our new symbol, Reliance Apex, is an embodiment of hope, optimism, and success. It represents the human urge for progress and the resolve to share a better tomorrow. The new Reliance typeface is a unique combination of upper and lower case characters, representing our essential openness and accessibility.

We have brought together all our businesses, brands and products, both within Reliance Communications and across Reliance ADA Group, under a monolithic architecture. Each business, brand or product bears the name Reliance, ensuring simplicity and a common inspiration and binding force. Our company name and examples of our brands are shown below.

Reliance is already the most trusted telecom brand and ranks in the Top 10 of all service brands in the country. The most recent brand tracker surveys show that we are significantly increasing our brand leadership over competitors in the telecom services sector. Reliance Communications is one of the top advertisers in India. Reliance ADA Group as a whole is the largest mass-media advertiser in the country. With the new corporate identity and integration across Reliance ADA Group, we have a significant edge in driving economies on our marketing expenditure and enhancing impact through media innovations.

4.1.3. Reliance Communications Wins FLAG Arbitration Against VSNL

During the quarter, the International Court of Arbitration has decided, in favour of the Company and against Videsh Sanchar Nigam Limited ("VSNL"), the arbitration relating to FLAG's right to upgrade the capacity in India on FLAG Europe-Asia cable. As a result, FLAG's capacity for international traffic from India will be enhanced immediately by 140 gigabytes. FLAG also has the right to equip capacity to any level. The Company will also be entitled to damages, the amount of which is unascertainable.

4.1.4. Other Corporate Developments

On May 5, 2006, the Board of the Company approved a proposal to sponsor a secondary market offering of Global/American Depositary Receipts ("GDR/ADRs") at a premium to the domestic market price. The proposed offering will enable existing shareholders to offer their shareholdings to financial/strategic international investors and retail/institutional investors in Japan. The proposed GDR/ADR programme relates only to existing shares and will not result in any increase in the outstanding share capital.

All the formalities for listing of GDRs with the Luxembourg Stock Exchange, which were to be issued as per the Scheme of Arrangement of Reliance Industries Limited with the Company, were completed. Deutsche Bank Trust Company Americas is appointed as the Depositary Bank for the said GDRs.

The Company has made an allotment of Foreign Currency Convertible Bonds ("FCCB") of US$ 500 million on May 9, 2006 having maturity period of 5 years and 1 day. Each FCCB is convertible in to 1 equity share of the Company at the price of Rs 480.68 per share, representing a premium of 50% to the closing price of the shares on March 21, 2006. In the event the FCCBs are fully converted into equity, the equity share capital of the Company would increase by approximately 46.2 million equity shares of Rs 5 each.

The name of the Company was changed from Reliance Communication Ventures Limited to Reliance Communications Limited with effect from June 7, 2006.

The Company has applied for an allocation of GSM 1,800 MHz spectrum in Delhi, Mumbai, and several other Circles to enable us to expand the geographic presence of our GSM network based services.

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

4.2.1. RCOM (Proforma Consolidated)

Revenues, Net Revenues

During the quarter ended June 30, 2006, the Company earned total revenues of Rs 32,501 million, compared with Rs 29,704 million in the prior quarter (+9.4%). Revenues from the wireless segment contributed 61% of total revenues before inter segment eliminations.

Net revenues, which comprise revenues after deducting license fees and access charges, were Rs 23,215 million, growth of 19.6% over the prior quarter.

Operating Expenses

During the quarter ended June 30, 2006, the Company incurred total operating expenses of Rs 20,439 million, representing 62.9% of total revenues. Operating expenses comprise Rs 9,286 million towards license fees and access charges (28.6% of total revenues), Rs 3,816 million towards network operations, Rs 2,157 towards employees, and Rs 5,180 towards selling, general, and administrative costs (in aggregate, 34.3% of total revenues).

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

License fees and access charges (which are predominantly variable in nature and linked directly to our revenue and traffic level and pattern) decreased by 9.8%. This resulted from a reduction in the revenue share payable under certain of our licenses and changes in the basis and rates for access deficit charges.

Operating expenses, net of license fees and access charges, increased by 24.8% compared with the prior quarter. The majority of the increase in operating expenses, net of license fees and access charges, was due to an increase in SG&A. This reflects a higher cash component in the overall wireless handset subsidy as compared with the prior quarter. The increase in SG&A was also on account of our branding initiatives. Network operations and employee costs increased as a result of network expansion and higher running costs.

EBITDA

During the quarter ended June 30, 2006, the Company had an EBITDA of Rs 12,062 million, growth of 15.1% compared with the prior quarter. The EBITDA margin for the quarter ended June 30, 2006 improved to 37.1% (35.3% in prior quarter). The expansion in our EBITDA margin was driven by a higher ratio of net revenue to total revenue.

Depreciation and Amortization

During the quarter ended June 30, 2006, the Company had depreciation and amortization expenses of Rs 5,514 million (Rs 5,457 million in the prior quarter).

Finance Charges

Net finance charges for the quarter ended June 30, 2006 were Rs 999 million (Rs 479 million in the prior quarter). The increase in net finance charges resulted from higher interest rates and higher negative foreign exchange adjustments as a result of depreciation in the Indian Rupee.

Between March 31, 2006 and June 30, 2006, the Indian Rupee depreciated against the United States Dollar by 3.1%, based on the noon buying rates as announced by the Federal Reserve Bank of New York on those dates.

Profit Before Tax, Extraordinary Item

The profit before tax and extraordinary item for the quarter ended June 30, 2006 was Rs 5,549 million, an increase of 22.2% compared with the prior quarter.

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

Net Profit

The provision for tax for the quarter ended June 30, 2006 was Rs 272 million (Rs 137 million in the prior quarter).

The net profit for the quarter ended June 30, 2006 was Rs 5,127 million, growth of 27.3% over the prior quarter.

Our annualized return on equity increased to 17.3% from 15.0%.

Balance Sheet

As at June 30, 2006, the Company had total assets (excluding cash and cash equivalents) of Rs 268,860 million and total liabilities (net of cash and cash equivalents) of Rs 146,506 million. The difference of Rs 122,354 million was on account of stockholders equity of Rs 122,255 million and minority interest of Rs 99 million.

The Company had net debt of Rs 24,410 million, a reduction of Rs 8,528 million compared with the prior balance sheet date of March 31, 2006. Our net debt to annualized EBITDA ratio fell to 0.51 times from 0.79 times.

Capital Expenditure

During the quarter ended June 30, 2006, the Company incurred capital expenditure of Rs 15,859 million, of which 54% was in our Wireless segment, 42% was in our Global segment, and 3% was in our Broadband segment.

4.2.2. Wireless Segment

Customer Acquisition, Churn

As at June 30, 2006, the Company had 22,522,329 wireless customers on its network, representing a market share of 20.6% of the All India wireless market. Out of our total wireless customers, 20,205,558 were on the CDMA platform and 2,316,771 were on the GSM platform. Out of our total wireless customers, 79.4% were pre-paid.

During the quarter ended June 30, 2006, we added (net) 2,310,655 wireless customers, a market share of 17.6% of All India wireless customer net additions (21.5% in the prior quarter).

At the gross customer acquisition level, our additions during the quarter were slightly below the prior quarter as we set a high standard in following stricter customer verification procedures. Across the market, these procedures resulted in lower additions in April and May as compared with March. However, by June, growth had rebounded.

During the quarter ended March 31, 2006, we initiated steps to re-balance certain schemes offering unlimited on-net (Reliance to Reliance) usage. The objective of this re-balancing was to enhance the yield per minute generated by our wireless traffic and thereby increase the return on our investment in capacity.

As a result of this re-balancing, we experienced in April and May 2006 an expected migration of customers to alternative schemes offered by us as well as a temporary increase in churn.

Accordingly, our churn rate in the quarter ended June 30, 2006 across our wireless customer base increased to 2.6% (from 2.1% in the prior quarter). Adjusting for this re-balancing, our underlying churn rate remained stable at historical levels.

At the same time, we have been able to generate higher ARPUs from those customers who migrated to alternative schemes offered by us, significantly improve our average revenue per minute, and release capacity in areas where we are experiencing high demand.

The effects of the re-balancing on our net additions were substantially complete by end-May 2006 and in June 2006 our net additions returned to the over 1 million per month level achieved continuously in the period December 2005 to March 2006.

Our lowest priced CDMA handset now retails at Rs 1,400. However, a significant majority of our new CDMA customers are opting for handset packages in the Rs 1,800 and above segment.

Within our GSM franchise, which was not affected by this re-balancing, we achieved higher net additions and our market share of net additions in the Circles where we operate both CDMA and GSM networks continued at a high level.

Out of our total wireless customer net additions, 80.0% were pre-paid, compared with 89.0% in the prior quarter. We believe that this is a short term shift as pre-paid customers were most effected by the increased vigilance on customer verification.

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

Our overall wireless ARPU in the quarter ended June 30, 2006 was Rs 379, the same level as the prior quarter. We were able to maintain ARPU through continuously offering innovative schemes that best suit the needs of all customer segments, coupled with transparent, value for money tariffs.

Our overall wireless net ARPU (after deducting license fees and access charges) increased to Rs 259 from Rs 226. This reflects changes consequent on the transition from a fixed rate per minute to a revenue share based regime for all wireless access deficit charges and the lowering of long distance carriage charges.

The blended monthly minutes of use across our wireless customer base in the quarter ended June 30, 2006 decreased to 491 minutes per customer from 532 minutes per customer. This effect was due to the re-balancing of the unlimited on-net schemes. The reduction in lower yielding traffic released capacity for new customers in areas of high growth which we can serve at no incremental investment cost. We continue to offer an array of unique schemes which appeal to customers with high usage requirements and to capitalize on the community of Reliance customers with innovative on-net schemes.

Revenue per minute averaged Rs 0.77, a significant increase of 8.5% compared with the prior quarter. The increase in revenue per minute reflects the success of our strategy to improve yield and investment returns.

Users of our wireless multimedia services increased to 7.9 million in June 2006 from 6.4 million in March 2006, continuing the strong upward trend in usage of these services by our customers. We currently have an installed base of over 15 million multimedia enabled handsets which we can serve over the Reliance Mobile World platform at no incremental upgrade cost for either the customer or ourselves.

Non-voice revenue remained at a similar proportion of overall wireless revenue (6.2%), with new customers tending initially to use mainly voice services.

Revenues, Net Revenues, EBITDA, EBIT

Revenues for the quarter ended June 30, 2006 were Rs 24,320 million, an increase of 14.7% over the prior quarter.

With effect from March 1, 2006, the Telecom Regulatory Authority of India ("TRAI") revised the basis for determining access deficit charges for most categories of domestic calls from a fixed charge of Rs 0.3 per minute to 1.5% of adjusted gross revenue. This change in basis of charging is reflected in our net revenues from that date. Net revenues for the quarter ended June 30, 2006, which reflect a full quarter of the new charging basis, were Rs 16,544 million, an increase of 30.8% over the prior quarter. EBITDA during the quarter was Rs 8,746 million, growth of 15.5% over the prior quarter. The EBITDA margin improved to 36.0% from 35.7%. EBIT during the quarter was Rs 5,144 million, growth of 28.6% over the prior quarter.

Capital Expenditure

The cumulative investment in our wireless business to June 30, 2006 has been Rs 155,117 million. Investment in the quarter ended June 30, 2006 was Rs 8,529 million. Our investment was focused on installation of additional capacity within existing coverage areas, including a significant expansion of our GSM capacity.

4.2.3. Global Segment

ILD/NLD Minutes of Use, Net LD Revenue per Minute

ILD minutes of use in the quarter ended June 30, 2006 totalled 1,214 million minutes, growth of 2.2% over the prior quarter.

In an increasingly competitive wholesale ILD market, we maintained our leadership with a market share of over 40%. While continuing to grow the business, our focus has been on containing the reduction in inbound settlement rates and enhancing margins. We are also increasing our presence in the ILD transit segment.

In the retail ILD market, we continued to experience strong growth in our overseas Reliance India*Call* franchise. Active customers have now crossed the 600,000 threshold. We have introduced an enterprise product based on the Reliance India*Call* platform and have soft launched Reliance World*Call* in the United States for calls to international destinations. We will be expanding the virtual calling card service to several new countries where there are significant non-resident Indian populations in the current and next quarter.

NLD minutes of use in the quarter ended June 30, 2006 totalled 3,085 million minutes, an increase of 12.0% over the prior quarter. In addition to growth from customers of our Wireless and Broadband segments, we have increased the proportion of our overall traffic from external wholesale customers. We have also enhanced margins by the deployment of new NLD points of interconnect, increasing the proportion of carriage on our own network.

With effect from March 1, 2006, the TRAI revised NLD carriage charges from fixed rates for calls of varying distance to a ceiling rate of Rs 0.65 per minute for all NLD carriage independent of distance. At the same time, the TRAI significantly reduced the fixed per minute rates of access deficit charge on incoming and outgoing ILD traffic. The benefit of these reductions has been passed on to our customers in terms of lower pricing.

The quarter ended June 30, 2006, was the first full quarter since these revised charges took effect. At the gross revenue level, our average long distance revenue per minute for NLD and ILD traffic in aggregate has fallen significantly. However, at the net revenue level, we have been able to contain the fall. Our average net long distance revenue per minute for ILD and NLD traffic in aggregate was Rs 0.67 in the quarter ended June 30, 2006, compared with Rs 0.77 in the quarter ended March 31, 2006 and Rs 0.69 in the quarter ended December 31, 2005.

IRUs, Leased Circuits, Internet Bandwidth, Managed Data Services

New contract values for sales of Indefeasible Rights of Use ("IRU") by FLAG once again reached a record level in the quarter ended June 30, 2006. We continued winning major long term contracts, including notable multi-gigabyte capacity sales to Deutsche Telekom in the trans-Atlantic segment and China Netcom in the trans-Pacific segment.

FALCON achieved significant success in completing presales to most of its landing partners. The FALCON cable is undergoing final acceptance tests and is on track for full commissioning during the current quarter.

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

During the quarter, the International Court of Arbitration has decided, in favour of the Company and against Videsh Sanchar Nigam Limited ("VSNL"), the arbitration relating to FLAG's right to upgrade the capacity in India on FLAG Europe-Asia cable. As a result, FLAG's capacity for international traffic from India will be enhanced immediately by 140 gigabytes. FLAG also has the right to equip capacity to any level.

The global network operating centre for the FLAG cable systems has been successfully transferred from London to our network operating centre at Navi Mumbai, India.

Revenues, Net Revenues, EBITDA, EBIT

Revenues for the quarter ended June 30, 2006 were Rs 12,340 million, a decrease of 12.8% compared with the prior quarter. However, net revenues for the quarter ended March 31, 2006 were Rs 7,174 million, in-line with the prior quarter. Net revenues from long distance voice registered a slight decline, which was offset by an increase in data revenues.

EBITDA during the quarter was Rs 2,842 million, growth of 7.8% over the prior quarter. The EBITDA margin was 23.0%, compared with 18.6% in the prior quarter, primarily due to a higher proportion of data relative to voice in our overall revenues and EBITDA.

EBIT grew by 14.7% to Rs 1,554 million.

Capital Expenditure

The cumulative investment in this business to June 30, 2006 has been Rs 80,155 million. Investment in the quarter ended June 30, 2006 was Rs 6,732, mainly towards the construction of FALCON which will be commissioned shortly.

4.2.4. Broadband Segment

Towns Active, Buildings Connected, Access Lines, ARPL

Our broadband operations continued to focus on directly connecting buildings in the top 30 cities in India. The number of buildings on-net increased to 180,759 from 101,741 at the end of the prior quarter, growth of 77% in building connections. We have geared up our construction activity, leveraging the existing optic fibre in the ground, to accelerate the roll out.

The number of access lines increased to 322,000 from 256,000 at the end of the prior quarter. The take up rate for our services has been consistently strong in the quarters following the activation of each building on-net.

With our comprehensive product portfolio, we made further in-roads into key accounts, both as first time and repeat order customers, and in broadening our SME customer base. There has been significant growth in our order book. We maintained our leadership in VPN, Centrex and IDC products.

Broadband segment revenues divided by the number of access lines (ARPL) decreased slightly to Rs 2,618 from Rs 2,742 in the prior quarter. As our broadband business is currently mainly serving enterprises, the revenue per line reflects the total portfolio of services and solutions that we are delivering to our customers.

We are continuing with our trials of IPTV at over 10,000 premises.

Revenues, Net Revenues, EBITDA, EBIT

Revenues for the quarter ended June 30, 2006 were Rs 2,271 million, an increase of 16.6% over the prior quarter. Net revenues for the quarter ended March 31, 2006 were Rs 1,872 million, an increase of 11.1% over the prior quarter. Revenues were earned predominantly from large and medium sized enterprise customers.

EBITDA during the quarter was Rs 882 million, growth of 45.5% over the prior quarter. The EBITDA margin was 38.8%, compared with 31.1%, as profitability of the business improved following the incurrence of start-up costs.

EBIT grew by 114% to Rs 518 million.

Capital Expenditure

The cumulative investment in this business to June 30, 2006 has been Rs 26,022 million. Investment in the quarter ended June 30, 2006 was Rs 522 million.

5. Basis of Presentation of Financial Statements

5.1. Reporting Periods

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

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

5.2. Statutory Financial Statements

Pursuant to a scheme of arrangement, the telecommunications undertakings of Reliance Industries Limited ("RIL") were demerged and vested in the Company, effective December 21, 2005.

The telecommunications undertakings of RIL vested in the Company comprised, inter-alia, investments in three principal operating companies, as under:

Principal Operating Company	Equity Shareholding
Reliance Infocomm Limited ("RIC")	45.34%
Reliance Communications Infrastructure Limited ("RCIL")	45.00%
Reliance Telecom Limited ("RTL")	35.60%

Note: In addition, RCIL holds 45.71% of RIC. 100% of the preference shares of RTL were also vested in RCOM. The balance of the equity shareholdings in RIC, RCIL, and RTL are owned by the Promoters of RCOM.

As presently constituted, the Company has no subsidiaries. Accordingly, there is no legal obligation to prepare consolidated accounts. The statutory financial statements of RCOM are standalone company accounts.

The Company's main source of income presently will be the return from its investments in RIC, RCIL, and RTL.

5.3. Proforma Financial Statements

5.3.1. The Company and its Affiliates

As described in Section 5.2 above, the Company presently has no subsidiaries and its main source of income will be the return from its investments in RIC, RCIL, and RTL.

So long as this is the case, the Company, as a measure of transparency and good corporate governance in the interests of its over 2 million shareholders, will on an on-going basis endeavour to make disclosures as regards material developments of RIC, RCIL, and RTL.

Consistent with this commitment, proforma financial statements for RCOM have been prepared on the assumption that RIC, RCIL, and RTL, together with their respective subsidiaries, are 100% owned direct or indirect subsidiaries of the Company.

Pursuant to a corporate reorganization approved by the Board of the Company on March 12, 2006, appropriate actions have been initiated to merge fully RIC with RCOM and to convert RCIL and RTL to 100% owned direct subsidiaries of RCOM. Once the process is complete, the proposed corporate reorganization will take effect retrospectively from March 31, 2006.

5.3.2. Proforma Consolidated Accounts

The unaudited proforma consolidated financial results of the Company have been prepared on proforma basis, following the principles of Indian GAAP, as prescribed by The Institute of Chartered Accountants of India, from time to time.

The proforma basis assumes implementation of the corporate reorganization as described in Section 4.1.2 above. The unaudited proforma consolidated financial results of the Company are stated in this report as if the corporate reorganization had been in effect throughout the periods covered by this report.

RIC, RCIL and RTL are not subsidiaries of RCOM as of June 30, 2006 and there is no legal requirement for the preparation of consolidated accounts. The proforma basis is presented solely to facilitate understanding and to reflect the full value of RCOM.

5.3.3. Revenues

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

- Consolidated Revenues and Segment Gross Revenues

  Proforma consolidated revenues of the Company have been classified as "Services and Sales" revenue. This represents revenues earned from the provision of services and from the sale of network infrastructure on an IRU basis. Services and Sales revenue excludes revenue from the sale of equipment as described in Section 5.3.6 below.

  For the purposes of business segment reporting, revenues have been classified under three segments namely "Wireless", "Global", and "Broadband". The lines of business included in each segment and the basis of segment revenue reporting is described in Section 5.4 below. Revenue earned from operating activities not included in these segments (as defined) is shown as "Other Income" under "Others" in the segment analysis.

- Elimination of Inter Segment Revenues

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

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

5.3.4. Net Revenues by Segment

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

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

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

5.3.5. Operating Expenses

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

- Consolidated and Segment Gross Operating Expenses

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

- Elimination of Inter Segment Expenses

  Principles, as stated in 5.3.3 (b) above, have been followed for reporting gross operating expenses of each segment and elimination of such expenses in determining proforma consolidated EBITDA for the Company.

5.3.6. Equipment Sales (Net of Costs)

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

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

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

5.4. Composition of Segments

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

- Wireless
- Global
- Broadband

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

5.4.1. Wireless

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

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

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

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

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

5.4.2. Global

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

- National inter-circle (NLD) carriage services for voice, data, and internet.

- International long distance (ILD) carriage services for voice, data, and internet.

- IRUs and leased circuits for international voice and data connectivity through submarine cable systems, together with cable restoration and maintenance services.

- International managed data services, including IP-VPN.

- Virtual calling card services provided by overseas operating units in USA, UK and Canada in a retail mode to individual customers.

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

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

5.4.3. Broadband

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

- Voice Products: E1 DID, Centrex, PBX trunks, audio conferencing, and fixed line phones.

- Data products: VPN, leased lines, IPLCs, Ethernet, video conferencing, internet data centre (IDC) services (including managed hosting, applications, storage, and disaster recovery), and broadband internet.

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

5.4.4. Others

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

As described in Section 5.3.6 above, equipment sales are stated net of costs and grouped under "Other expenses". Other expenses also include unallocated corporate expenses.

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

6. Proforma Financial Statements

Unaudited proforma financial results for the quarter ended June 30, 2006 as per Indian GAAP. The previous quarter figures have been regrouped and reclassified, wherever required. An explanation of the basis of presentation is set out in Section 5. In the tables below, "Qtr ended 30/6/06" refers to the three month period ended June 30, 2006 and "Qtr ended 31/3/06" refers to the three month period ended March 31, 2006.

6.1. Proforma Consolidated Results of Operations

(Rs Million, except ratios)

Particulars	Qtr ended 31/3/06	Qtr ended 30/6/06
Total revenues	29,704	32,501
Services and sales	29,704	32,501
Total operating expenses	19,228	20,439
License fees and access charges	10,291	9,286
Network operations	3,349	3,816
Employees	1,824	2,157
SG&A (note 1)	3,764	5,180
EBITDA before extraordinary item	10,476	12,062
Finance charges (net) (note 1)	479	999
Depreciation / amortization	5,457	5,514
Profit before tax and extraordinary item	4,541	5,549
Extraordinary item (note 2)	374	150
Profit before tax	4,167	5,399
Provision for tax	137	272
Net profit after tax	4,029	5,127
Ratios		
EBITDA margin (%)	*35.3%*	*37.1%*
Net profit margin (%)	*13.6%*	*15.8%*

Notes to the Proforma Consolidated Results of Operations

1. Foreign exchange adjustments, which were previously grouped and classified as part of "SG&A", are now grouped with net interest and classified as "Finance charges". Corresponding adjustments have been made to the grouping and classification in the quarter ended March 31, 2006.

2. Regulatory authorities may require verification or re-verification of all wireless customers. The company estimates the cost of such an exercise in a full year at Rs 600 million and accordingly on a conservative basis an amount of Rs 150 million has been provided in the quarter ended June 30, 2006 so as to meet the costs of any such exercise. The extraordinary item of Rs 374 million in the quarter ended March 31, 2006 related to employee restructuring costs.

6.2. Proforma Consolidated Balance Sheet

(Rs Million)

Particulars	As at 30/6/06
ASSETS	
Current assets	
Inventories	3,982
Debtors	17,271
Other current assets	1,547
Loans and advances (note 1)	21,459
Total current assets (note 2)	44,259
Fixed assets	
Gross block	234,730
Less: Depreciation	53,299
Net block	181,431
Capital work-in-progress	40,733
Goodwill	2,308
Total fixed assets	224,472
Investments	129
Total assets	268,860
LIABILITIES AND STOCKHOLDERS EQUITY	
Stockholders equity	
Share capital	10,223
Reserves and surplus	112,032
Total stockholders equity	122,255
Minority interest	99
Current liabilities and provisions	
Current liabilities (note 3)	102,320
Provisions	19,776
Total current liabilities and provisions	122,096
Debt	
Secured loans	
Foreign currency loans	22,504
Rupee loans	49,470
Unsecured loans	47,101
Less: Cash and cash equivalents (note 2)	94,665
Net debt	24,410
Total stockholders equity and liabilities	268,860

Notes to the Proforma Consolidated Balance Sheet

1. Loans and advances includes: advances in cash or kind or for value to be received (net of provision) of Rs 10,699 million and deposits of Rs 10,719 million.

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

3. Current liabilities includes: advances from customers and deferred revenue of Rs 30,654, sundry creditors of Rs 36,787 million, buyers credit of Rs 15,728 million, and other categories of liabilities totaling Rs 19,151 million.

6.3. Proforma Consolidated Statement of Cash Flows

(Rs Million)

Particulars		Qtr ended 31/3/06	Qtr ended 30/6/06
Cash flows from operating activities:			
Net profit/(loss)	A	4,029	5,127
Add: Non cash/non operating items	B	5,874	6,906
Depreciation and amortization		5,457	5,514
Provision for doubtful debts		(305)	247
Finance charges (net)		479	999
(Profit)/loss on sale of assets/investments		(268)	(276)
Tax expense/(income)		137	272
Extraordinary items		374	150
Cash generated from operations before working capital changes	A+B	9,903	12,033
(Increase)/decrease in working capital		2,187	4,189
Cash generated from operations		12,090	16,222
Tax paid		(205)	(746)
Net cash provided/used by/in operating activities	C	11,885	15,476
Cash flows from investing activities:			
(Purchase)/sale of property/plant/equipment		(12,428)	(11,081)
(Purchase)/sale of investments		268	276
Finance charges (net)		(422)	157
Net cash provided/used by/in investing activities	D	(12,582)	(10,648)
Cash flows from financing activities:			
Increase/(decrease) in borrowings		(26,144)	29,799
Net cash provided/used by/in financing activities	E	(26,144)	29,799
Cash and cash equivalents:			
Beginning of the period	F	86,879	60,038
End of the period	C+D+E+F	60,038	94,665

7. Accounting Policies

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

7.1. Principles of Consolidation

The Company holds less than 50% of paid-up equity shares of each of its key investee companies, namely Reliance Infocomm Limited, Reliance Communications Infrastructure Limited, and Reliance Telecom Limited (together referred to as "Investee Companies"). The Company does not have any subsidiary as at June 30, 2006. Consequently, the Company is not required to prepare consolidated financial statements in terms of the Accounting Standards (AS) issued by the Institute of Chartered Accountants of India.

The Board of Directors of the Company at its meeting on March 12, 2006 approved a Scheme of Amalgamation and Arrangement (SoAA) for inter alia the amalgamation of Reliance Infocomm Limited, Ambani Enterprises Private Limited, Reliance Business Management Private Limited, Formax Commercials Private Limited, Reliance Communications Technologies Limited, Reliance Software Solutions Private Limited, Reliance Communications Solutions Private Limited and Panther Consultants Private Limited with the Company and respective shareholders and creditors. The SoAA has been approved by the Hon'ble High Court of Gujarat and the Hon'ble High Court of Judicature at Bombay. Upon effectiveness of the SoAA and allotment of equity shares of the Company as per the SoAA, the equity share capital of the Company will stand increased to 2,044,614,990 shares of Rs 5 each fully paid-up and Reliance Communications Infrastructure Limited, Reliance Telecom Limited as also Flag Telecom Group Limited, inter alia, will become wholly owned subsidiaries of the Company.

The proforma unaudited consolidated financial results contained in this report are prepared in terms of the abovesaid SoAA as if it was effective from April 1, 2005. Accordingly, and in order to enable investors to take a holistic view of the business carried on by the Company and its key investee companies, the accounts of the Company have been recast by consolidating (even though such consolidation is not required) the accounts of the investee companies for the quarter ended June 30, 2006 by adopting on a mutatis mutandis basis the provisions of AS 21 and AS 23 relating to Consolidation of Financial Statements issued by The Institute of Chartered Accountants of India.

7.2. Other Significant Accounting Policies

7.2.1. Basis of Preparation of Financial Statements

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

7.2.2. Use of Estimates

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

7.2.3. Fixed Assets

- Fixed assets are stated at cost net of CENVAT less accumulated depreciation, amortization and impairment loss, if any.

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

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

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

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

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

7.2.4. Depreciation / Amortization

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

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

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

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

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

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

7.2.5. Impairment of Assets

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

7.2.6. Investments

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

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

7.2.7. Inventories

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

7.2.8. Employee Retirement Benefits

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

7.2.9. Borrowing Cost

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

7.2.10. Foreign Currency Transactions

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

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

- Non monetary foreign currency items are carried at cost.

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

7.2.11. Revenue Recognition

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

7.2.12. Provision for Doubtful Debts

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

7.2.13. Miscellaneous Expenditure

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

7.2.14. Taxes on Income

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

7.2.15. Government Grants

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

7.2.16. Provisions, Contingent Liabilities and Contingent Assets

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

8. Glossary

Key Performance Indicators and Financial Terms

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

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

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

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