



RELIANCE COMMUNICATIONS LIMITED

Registered office: H Block, 1st Floor, Dhirubhai Ambani Knowledge City, Navi Mumbai - 400710

Transcript of Earnings Conference Call for Quarter Ended March 31, 2007

Conducted at 4 pm IST on April 30, 2007

Operator:

Thank you for standing by and welcome to the Reliance Communications Global Earnings Conference Call on the Reliance audio conferencing platform. 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. Suresh. Over to you, sir.

Suresh Mahadevan:

Yes, thank you. This is Suresh Mahadevan from UBS Securities in Hong Kong. Good morning, good afternoon, or good evening, ladies and gentlemen, depending on where you are. We at UBS are very pleased to host this call for the full year and fourth quarter ended March 31, 2007 results for Reliance Communications.

First of all, we would like to congratulate the Reliance management on yet another quarter of very strong performance and a year of big achievements. We also congratulate them on their maiden dividend announcement.

We have the entire senior management team from Reliance Communications present in this call. Specifically we have the Chairman, Mr. Anil Dhirubhai Ambani, and also the leaders of the company's various strategic business units Mr. S.P. Shukla, Mr. Puneet Garg, Mr. V.K. Aggarwal and Mr. Prakash Bajpai, who are joining this call. On behalf of UBS and the other participants in the call, I would like to thank them for taking valuable time. The call will begin with some key observations from the Chairman and will be followed by some senior management comments from Reliance Communications. This will be followed by Q&A.

I must remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risk that the company faces.

It's now my pleasure to hand over the call to the Chairman, Mr. Anil Dhirubhai Ambani. Over to you, sir.

Anil Dhirubhai Ambani:

Thank you Suresh, and welcome everybody to this call. Firstly, I am glad to report that Reliance Communications, our company that started its publicly listed life in the month of March 2006, is now one year old. In this timeframe, we have had many firsts and many records of achievement to our credit. All this would have not been possible if it was not

for the support of over 40,000 people who work for Reliance Communications, our 30 million customers and of course, our over 2 million stakeholders.

Let me start with the most recent one, which directly benefits our global shareholder base of nearly 2 million. In our meeting today, the Board of Directors recommended a maiden dividend of 10%. We are now the first Indian telecom services company to recommend a dividend payout to shareholders, that too on completion of just the first year of our public operation. This is a unique event in the history of the Indian telecom sector and is fully aligned with our long-standing philosophy of delivering value and returns to all our shareholders.

In addition to the maiden dividend, there are other positives that I would like to share with you today. But first, I would also like to use this opportunity to highlight the remarkable turnaround in operations achieved by Reliance Communications since the current management took over the operation. Just to put it into perspective, we acquired management control in July 2005 after the Reliance Group restructuring. The ownership structure across the group was highly fragmented. A very large number of the key leadership team moved to Reliance Industries. We had substantial operational challenges and also regulatory challenges. We took a series of steps in this elapsed time and did a comprehensive reorganization to bring all our assets under one umbrella of Reliance Communications to completely converge and align the interests of stakeholders on the same platform. We also made an accounting provision of nearly \$1 billion and then listed the company in March 2006.

As some of you may have already seen, Reliance Communications has now become only the fifth company in Indian corporate history to post a quarterly net profit exceeding a thousand crores, that is over \$230 million. This, we believe, is a sizable achievement in itself, but what is even more encouraging is that the achievement again comes within a year of becoming a listed company. Today we are amongst the top 10 companies, 7th to be precise in terms of market cap. The valuation of our company has already crossed the landmark level of over a Rs. 100,000 crores, that is \$23 billion. Since our listing, we have created more than 60,000 crores or over \$14 billion of additional shareholder value, something that we expect to build further upon as we deliver on our growth strategy. Today, we are already ranked as the fifth most valuable telecom company in Asia, in a group which includes the largest operators in China and the largest Pan-Asian operator.

I would like to now take you through some of the key financial highlights for the 12 months ended 31st March '07. During this year, we delivered revenue growth of 34% to more than Rs. 14,000 crores or over \$3.2 billion. We derived significant benefits from the growing scale across our integrated communication services business. Our operating leverage allowed us to improve EBITDA margins from 24% to nearly 40%. We earned an EBITDA of over Rs. 5,700 crores or over \$1.3 billion, which is more than twice last year's level. At the profit after tax level, margin increased from 4% to 22% and profit increased by more than 7 times to over Rs. 3,000 crores, that is \$700 million.

At the close of the financial year, our Net Worth has exceeded Rs. 20,000 crores or over \$4.6 billion. This, along with the negligible leverage on our balance sheet, means that we have a borrowing capacity of more than Rs. 40,000 crore or \$10 billion at present. Such resource availability allows us to plan for much greater achievements in the coming years.

Our return ratios have also improved from the low single digits to about 20%, no small achievement. We have got return on capital employed of 18%, up from 5%, and return on equity up to 20% from 4%.

Before I move forward, I would also like to quickly draw your attention to our financial performance in the quarter ended 31st March compared with the corresponding quarter of the last financial year. Our revenues climbed 33% to almost Rs. 4,000 crore, that is \$930 million. Our EBITDA was up 57% to more than Rs. 1,600 crores, that is \$370 million. Our EBITDA margin expanded from 35% to 42%, and our net profit crossed the Rs. 1,000 crore mark. All our three business units expanded margins significantly over the course of the last year. Since listing in March, we have created more than Rs. 60,000 crores of additional wealth for our shareholders, but this, we believe, is just the beginning.

The way forward, we are now committed to investment that will take us into the next level of growth and business achievements. We plan to accelerate network expansion to cover about 85% of India's population by end of this year. The new investment will enable Reliance Communications to expand its footprint within the existing CDMA and GSM circles, prepare the network for rollout of GSM services in additional circles and for the potential launch of 3G and WiMAX services in the future. Following the completion of expansion plans, RCOM will cover the entire urban population of the country and also connect over 65% of rural India.

The network expansion will be incurred through the combination of the Reliance Communications balance sheet and the Reliance Telecom Infrastructure balance sheet, which is our infrastructure subsidiary. Our capital guidance, which I have indicated in January of 2007, for the coming year remains at Rs. 10,000 crores or roughly \$2.5 billion.

In addition, whatever is required in terms of capex for our tower infrastructure company will actually be incurred on the Reliance Telecom Infrastructure balance sheet. We have engineered our Telecom Infrastructure strategy to build a nationwide network of passive infrastructure to support 2G, 2.5G, 3G and 4G; namely GSM, CDMA, 3G and WiMAX.

As Reliance Telecom Infrastructure operates as an independently run organization, with its unique charter, it will develop its own relationships with external customers, including Reliance Communications as an anchor customer. Given Reliance Telecom Infrastructure's existing net worth of roughly Rs. 3,000 crore or roughly \$730 million and no debt at all, it will look at various financing options, including the issuance of debt, to take forward its business.

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

S.P. Shukla:

Thank you, Mr. Ambani, and hello, everyone on the conference. As you know, our wireless business covers mobility and fixed wireless services on both CDMA and GSM platforms. Reliance Mobile and Reliance Hello, our two brands names, have become household names in India in the very short span of our commercial service.

In the year ended March 31st, 2007 our wireless revenues increased by 46% and our wireless EBITDA increased by 77% over the previous year, that is the year ended on March 31st, 2006. In the year just ended, we recorded wireless revenues of Rs. 107,280 million, that is \$2,489 million, and wireless EBITDA of Rs. 39,840 million, which is \$924 million. Our wireless EBITDA margin improved from 30.6% in the financial year '06 to 37.1% in the financial year '07.

During the quarter ended 31st March, 2007 our wireless EBITDA increased by 11.8% in sequential quarters, that is from Rs. 10,293 million, that is \$239 million, to Rs. 11,511 million, that is \$267 million. Our EBITDA margin continued to show an upward trend moving up from 37.4% to 38.8% in the sequential quarter.

Our rollout of services in both GSM and CDMA license areas continued at a fast pace during the year. As a result, we closed the year with almost triple the coverage in our GSM license areas at 2,000 towns. Similarly in CDMA circles we have reached coverage of over 8,000 towns. This positions us to continue our growth momentum in subscriber acquisition.

Prepaid customers now represent 84.7% of the subscriber base. During the quarter ended 31st March, 2007 we successfully completed the subscriber re-verification exercise in full compliance with the government directive. Those subscribers who did not provide us with full documentation were disconnected. We are continuing our efforts to obtain full documentation from them, which will immediately lead to their reactivation on our network. However, from early January itself, we had outgoing call barred most of these subscribers for whom we lacked full documentation. Hence, there was negligible revenue contribution from these customers during the final quarter.

Our ARPU for the year ended 31st March, 2007 stood at \$8.61, which is Rs. 371. That is in line with other leading wireless operators in India. In the prior year, our ARPU was marginally higher at Rs. 391, which is \$9.07. Our revenue per minute has remained stable at Rs. 0.74 per minute, which translates to 1.7 cents per minute in the year ended 31st March, 2007. This indicates that our plans and product mix continue to deliver optimal results while maximizing subscriber growth. We have maintained per minute realization

stability in contrast with many of our peers in the industry who have experienced continuous decline. In fact our revenue per minute has been maintained in the range of 70 to 80 paise per minute for eight consecutive quarters now.

In the latter part of the year, we also undertook the full fledged launch of our own handset brand that is the 'Classic' range of handsets with immediate success. In a very short span it has emerged as the number two brand in the handset category in India. Our total handset sales now exceed the combined sales of the next four handset vendors in the country. The success of the Classic handset brand has allowed us to increase the cost competitiveness of our handset-talk time bundled offers, as well as our overall marketing cost efficiency. This initiative, combined with our substantial experience of offering bundled products, positions us for sustained long-term competitive advantage in the wireless sector.

I will now hand over to Mr. Punit Garg, Head of our Global Data and FLAG.

Punit Garg:

Thanks SP. Good morning, afternoon or evening, ladies and gentleman. The Global segment of Reliance comprises FLAG, National Long-Distance and RCOM Global Data and Voice businesses.

In the year ended March 31st, 2007 EBITDA of the Global segment increased by 98% to Rs. 12,710 million, which is \$295 million. EBITDA margin of the Global segment increased from 12.4% in financial year '06 to 24.5% in financial year '07. This significant profit growth and profit margin expansion was achieved despite gross revenues for the segment remaining flat on a year-on-year basis. Our overall strategy for the Global business is to focus on margin retention and a better mix of higher margin revenue streams while aggressively growing the business.

I would now like to provide an overview of RCOM's Global Data and FLAG business. The past year has seen progress on Global Data and FLAG Telecom. We continued to add new and important customers, including Iraq Telecom, Lanka Bell of Sri Lanka, Bezeq of Israel, Savvis Communications from US. And we are also seeing significant growth in our repeat business as well. We got some major contracts from customers like China Netcom, China Telecom, Link Dot Net, which is Orascom in Egypt, Korea Telecom, Deutsche Telecom, British Telecom, Verizon to name a few.

The year ended March 31st, 2007 has been a complete turnaround for the business of FLAG Telecom Group. For the first time in its history FLAG recorded a net profit. This was achieved in the second full year since FLAG emerged from bankruptcy and was acquired by Reliance and the first full year under the present management. Profitability has resulted from increased year-on-year revenues and improvement in operating cost and

SG&A. Our philosophy is to have more for less and enhance the efficiencies and utilization of our assets by multiples.

We have achieved an improvement in operating costs and SG&A through three major initiatives. First, the transition of Global network operations centre and management centre from Heathrow, London to DAKC, Mumbai. Our second initiative migrated finance, accounts and revenue assurance functions to Mumbai. Our third initiative is the significant investment in IT. We have adopted the same IT operating model as Reliance, integrating all operations and business support system development as well as operations out of DAKC.

Finally, I would like to present our new initiatives. The FALCON cable system was declared ready for service in September 2006. The FALCON cable connects all the countries in Middle East and seamlessly integrates with the FLAG global network, taking the total number of countries connected on the FLAG global network to 40 countries, which was 28 at the end of March 2006. The success of the FALCON project and continued growth in demand led us to launch the FLAG Next Generation Network project in December 2006.

On completion, the FLAG Global Network will connect over 60 countries and address 90% plus of world GDP, which is US\$35 trillion. This initiative would actually complete a FLAG terabit loop around the globe. This horizontal expansion will be coupled with vertical expansion and vertical spread of services within FLAG.

The vertical expansion entails building a global service delivery network that will be first in place and enable FLAG to offer value-added services including edge hosting, application delivery networks and content delivery networks, hosted contact centre solutions and managed services. These services will be offered through our alliances and system integrators across geographies. We have laid the foundation of profitable growth and are on the threshold of exciting growth.

Thank you. Now, I will hand over to V.K. Aggarwal, who leads our Global Voice Business.

V.K. Aggarwal:

Thank you, Punit, and hello everyone. I would like to give an overview of the Global Voice business. Global Voice business provides national and international long distance services. Within 18 months of our launch, we have attained number one position in terms of traffic in the key international wholesale segment. In a highly dynamic and competitive market with increasing competition, rapid volume increases and price declines we have successfully maintained this position during the year. We continue to remain the number one ILDO in India as well as the number one retail calling service to India from US. We are also the number one NLDO in India in the wholesale segment.

Key drivers of our competitiveness are the reach of our network internationally and nationally. Our pan-India optic fiber network totals 100,000 kilometers and we are expanding the same in the current year to 130,000 kilometers. We have highest number of interconnects with other service providers, which enables us to carry traffic further on-net and gives us a cost saving of carriage advantage as well as delivery of good quality.

We have a diverse customer base, both wholesale and retail in India and globally. We, in the last quarter, had experienced short-term instability in the retail market where the US retail calling card service had a significant margin drop. However, in the current quarter, this margin has been partly restored.

Global ILD voice is launching new services to improve the mix of revenues from retail and from enterprise services. This will give us sustained, committed and own traffic on Reliance to meet the challenges posed by the increased competition. New services in the pipeline are managed contact centres and voice content. We will continue to expand our international retail voice business to new geographies. We will also aggressively expand our international transit/hubbing voice business.

For NLD voice carriage, we will leverage our cost advantage because of volume growth and having the maximum number of interconnects. New players will provide us the opportunity for sale of infrastructure and bandwidth.

I will now hand over to my colleague Prakash Bajpai to discuss the Enterprise Business.

Prakash Bajpai:

Thank you, V.K, and hello everybody. Let me now briefly describe the performance of the broadband segment of Enterprise business during the year and final quarter. In this segment, we provide a comprehensive range of product solutions including voice, data, internet, video conferencing and IT infrastructure services to large corporates, small and medium-size businesses as well.

During the year, we continued to gain momentum in the top corporates in India by not only offering new and innovative products and services like global conferencing, universal toll free service, video conferencing, high availability leased lines, but also by continuing to gain higher share of wallet from the Telecom and IT spend by enterprise customers.

During this year, we have made good inroads in the premium neighborhood buildings, after having completed the broadband infrastructure layout in almost all the prime business districts. With the three-fold increase in buildings connected, customer acquisition has picked up quite a bit of momentum.

We have incrementally connected more than 386,000 buildings that is a total of 488,000 cumulative buildings during financial year '07, and all of this is within the top

40 cities of our operations today. We have a combined customer base of more than 620,000 which is more than 140% growth over the previous year.

Turning now to the performance highlights of the year and the quarter. The broadband segment of the Enterprise business continues to be the fastest growing business. Revenue growth in the financial year was 123% over the previous financial year, while EBITDA growth was 575% in financial year '07 over financial year '06. From the start-up business during financial year '06, the broadband business has contributed EBITDA of Rs. 519 crores that is \$120 million in the year. In the quarter ended 31st March 2007, we contributed EBITDA at an annualized run rate of \$150 million.

In financial year '06, our EBITDA margin was 15% and in financial year '07 we have increased this to 45.4%. And in the final quarter, our margin was 48.8%, which is indeed the industry leading margin in this business. This reflects the revenue quality arising out of our premier range of enterprise solutions and our cost effective measures implemented during the year. During the year, we have continued to maintain our leadership position not only as the premier integrated solutions for the top corporates but also in the MPLS VPN category, the voice centered solutions category and the data centre businesses.

We not only proliferated further into the SMB segment, but also significantly increased our share of wallet in the premium enterprise segment. More than 50% of our new business continues to come from our existing key customers. Some of the key acquisitions during the quarter include names like Bosch, Goldman Sachs, Tech Mahindra, Nicholas Piramal, Times of India, and many more.

As regards financial year '08, we will enlarge our building connectivity program and extend our IP-centric metro ethernet base to several more cities. In the SMB space, we are gearing up to launch operations targeted at the SMB segment in the next few months with a high degree of focus in quarter one itself.

We are in advanced stage of developing state-of-the-art capabilities in digital TV, video on demand, interactive TV through our IPTV and DTH product platforms, which shall be ready for commercial launch by the end of the year.

I will now hand back to the moderator to open the session for questions.

Operator:

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

We have the first question coming from Mr. Henry Cobbe from Nevsky Capital. Please go ahead sir.

Henry Cobbe:

Hello, thanks very much for the call. This is Henry Cobbe from Nevsky Capital. Just two questions, first is on the effective tax rate, I think previously you have guided 10% to 12% and came in near zero. Can you give us an update on the effective tax rate for the coming year and what the drivers are for the tax savings? And the second question is just on FLAG Telecom. When are you expecting additional revenues to come through following the expansion of the network?

Punit Garg:

In Flag, we are expecting the vertical aspect, which is the services business, which we have started last year on the terabit backbone, to pick up significantly this year, to provide most of our revenue growth. In addition to that, FALCON accrued significant revenues through the contracts we signed over the last 14 or 15 months. Most of it would be realized this year, and these two segments would contribute to significant revenue growth in current financial year.

Anil Dhirubhai Ambani:

As far as the tax rate is concerned, I think that the guidance is clearly to use the minimum alternative tax or the MAT rate of taxation in the 11% range. In the last financial year, clearly based on past provisions available, we have been able to effectively lower the tax rate, but going forward I think that we should look at the MAT rate.

Henry Cobbe:

And what was driving the tax savings?

Anil Dhirubhai Ambani:

It is all accumulated depreciation available from the past.

Henry Cobbe:

Okay. And what were the revenues from FALCON that you booked in this financial year?

Punit Garg:

We have contracts over \$450 million, which are booked, and which are now getting realized because the services are given over a period and these are getting activated month-by-month and we believe that a full year will be taken in terms of activating most of the capacity.

Henry Cobbe:

Okay. So in the financial year March '07 you recognized \$450 million worth of revenues, is that right?

Punit Garg:

No. Not revenues but contract value. The revenue recognized in the last year is very low, and most of it would be recognized in the current financial year.

Henry Cobbe:

Understand. Okay. And on the capex side, what was the capex in the March '07 year? And how much of that was GSM based?

Anil Dhirubhai Ambani:

We do not give splits, but the total capex for Reliance Communications was 6,500 crores or \$1.6 billion.

Henry Cobbe:

Is that a consolidated capex?

Anil Dhirubhai Ambani:

Yes.

Henry Cobbe:

6,500 crores?

Anil Dhirubhai Ambani:

\$1.6 billion.

Henry Cobbe:

Okay. Thank you very much.

Operator:

Thank you Mr. Henry. Next in line we have Mr. Vinay Jaising from JM Morgan Stanley. Please go ahead sir?

Vinay Jaising:

Thank you, ma'am. Sir, I have four questions and apologies in case the numbers are there in the release. Firstly, on the cellular business, I wanted to understand this 5 million write-off. The ARPU mentioned for last year was in the 390 range, I had a number of about 379. So how will you account for subscribers for this year and even last year beginning. So also, have you done anything on the balance sheet or anything in the annual report on the 5 million subscribers' front? That's my first question. Should I move to the second or should I wait for the answer, sir?

S.P. Shukla:

The answer to your question, Vinay, this is S P Shukla here, is in three parts. One, these 5.6 million subscribers have been deactivated as on 31st March. It does not have anything to do with the balance sheet. This is the subscriber base which is reflected on the network. So as a result of our verification exercise, we did the call barring of customers and when they bring their documents back, they are reconnected on our network. Already this month, we have been successful in getting about 100,000 customers back to our network who came and submitted their proper documents. Coming to the second question, as far as ARPU is concerned, these customers had already been outgoing call barred right in the beginning of January. As a result, their contribution was minimal during the quarter and has no impact whatsoever going forward, because their revenues are not reflected in the quarterly earnings. For the purpose of ARPU, they have been excluded and you will see that our ARPUs are quite healthy in-line with the industry.

Vinay Jaising:

Sir, does that mean in March '06, you've not written off the 5.6 million, the number similar to what it was earlier?

Daniel Newman:

Vinay, this is Daniel Newman here. For the purpose of calculating the ARPU, it makes sense to assume that the 5.6 million is deactivated from 1st of January, and so the average for the entire period is less by 5.6 million. On that basis, our ARPU for the fourth quarter is 377 rupees.

Vinay Jaising:

Thank you. Moving on to the second question on the Global business, when I see my calculation for the first three quarters, somehow I get an EBITDA which is lower than the last quarter. I get about Rs. 3.1 billion of EBITDA and even revenue a little lower. Can you put some light on that?

Daniel Newman:

Sorry, Vinay.

Vinay Jaising:

I just wanted to know your global business EBITDA for the quarter and revenue for the quarter. There seems to be, from my calculation, some pressure on the numbers which we got on the call. Maybe I am wrong.

Daniel Newman:

You are correct. As you know, the business is a combination of voice and data. I will ask V.K. to address the voice part.

V.K. Aggarwal:

This is V.K. I mentioned that during the quarter on our retail calling from US, we had a drop in price. So that resulted in revenue drop and EBITDA drop. And of course, foreign exchange – the rupee is strengthening, so that also has a little additional impact. So, in the fourth quarter, there was a drop in EBITDA especially because of Reliance India Call from the US.

I just wanted to add that in the new year this quarter, there is a recovery in margins.

Vinay Jaising:

Thank you, sir. Sir, anything on the spectrum front. When do you expect spectrum now for GSM and some update on the towers part of it as well?

Anil Dhirubhai Ambani:

As far as Reliance Telecom Infrastructure is concerned, which is our passive infrastructure company, all the formalities have been completed. We have transferred 12,000 towers from RCOM to RTIL at, as I said earlier, a Rs. 3,000 crore valuation that is the equity of the new tower company. It has got no debt. So as it rolls out its 20,000 towers in the course of this year, it will fund itself based on its balance sheet without Reliance

Communications putting any more capital to work. Also, the tower company and the tower infrastructure that has been created is good for 2G, 2.5G, 3G, 4G, or with the full perspective in GSM, CDMA, 3G – whether it is WCDMA or EVDO – as well as on WiMAX. So we are pre-investing for the future, and as and when these services have to be rolled out, actually will have a time-to-market advantage apart from any cost advantage. We are examining a number of opportunities to unlock value, and over the next six months there would be a definitive decision on what is the most optimal way to unlock value for Reliance Telecom Infrastructure.

Vinay Jaising:

Thank you so much sir.

Operator:

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

Rajeev Sharma:

Congrats on the good set of numbers. Just two questions, can you shed some light on your WiMAX strategy, how do you plan to deploy the towers and in which cities will you be launching WiMAX. And what proportion of capex are you allocating for WiMAX. And on spectrum availability, there is a recent discussion on whether two technologies can run in the same circle and whether there should be an operative cap on licenses in a single circle. Also, when do you expect GSM spectrum to be available for your GSM shift? Thank you.

Anil Dhirubhai Ambani:

Okay. Thank you. As you are familiar, we already operate in 8 circles on GSM. And there, we are operating 900 MHz. So we have spectrum efficiency as well as capex efficiency. We are expanding our coverage to over 8,000 towns in those GSM circles. So this has nothing to do with waiting for spectrum at all.

Simultaneously, we are rolling out 20,000 towers on a nationwide basis, which are multi-technology passive infrastructure. We project that we can launch nationwide services on GSM within 1 year of availability of spectrum. We are projecting capital expenditure of above US\$1 billion or Rs. 4,500 crores as the cost of rolling out GSM in our CDMA circles today.

As far as availability of spectrum and allocation of spectrum is concerned, clearly the Universal Access Licenses are technology-neutral licenses. They don't specify any technologies, and we are waiting to receive GSM spectrum. A large quantity of spectrum

is going to be released over the next few months and based on all the work that we have done, there is enough spectrum. And if India wants to reach 500 million subscribers on a nationwide basis, then there has to be adequate spectrum, otherwise the national targets will not be met at all.

So we believe that on a large number of these things, we should have clarity over the next few months. However, we are already investing preemptively in passive infrastructure. We have gone aggressive and done an 8,000 city coverage in our GSM circles, and we are also expanding our CDMA coverage on a nationwide basis.

So we are fully geared and fully prepared to capture the growth in the current phase of growth as well as in the future phase of growth with both GSM and CDMA. Also, I would like to point out that in our GSM/CDMA circles, we have a market share in excess of 25%, and we will target a 25% market share on a nationwide basis, going forward.

As far as WiMAX is concerned, we are still awaiting – there is a TRAI consultation paper on WiMAX. We believe that we will be a nationwide player on WiMAX. It will really be subject to final Government policy. But we are gearing ourselves for a nationwide play.

Rajeev Sharma:

Just a follow-up question, sir. You mentioned that eventually US\$1 billion will be your capex for rolling out GSM in CDMA circles. Can you just explain this, sir?

Anil Dhirubhai Ambani:

As I said, there are 8 GSM circles where we are going already towards a capacity and coverage of 8,000 towns. In the balance circles, which are 16, we will spend \$1 billion in GSM capex, which will then complete our GSM coverage on a nationwide basis.

Rajeev Sharma:

The balance will require 1 billion?

Anil Dhirubhai Ambani:

Yes, done.

Rajeev Sharma:

Okay, thank you.

Operator:

Thank you, sir. Next in line, we have Mr. Suresh from UBS. You may go ahead, sir?

Suresh Mahadevan:

Yes, thanks a lot for giving me the opportunity to ask questions. I think a couple of quick questions. One is on wireless revenue growth. I think, on a quarter-on-quarter basis, when I look at Reliance Comm numbers, they are still lagging your other two listed rivals. So I would like to hear from Mr. S.P. Shukla what is the strategy in the coming quarters to bridge that revenue growth gap?

My second question is more on the towers, Reliance Telecom Infrastructure Limited. You mentioned that 20,000 new towers will be rolled out at the RTIL level. I am assuming this US\$2.5 billion capex includes that. The other question related to that is you also mentioned 12,000 towers have been transferred to RTIL. And I just want to make sure these 12,000 towers are able to handle GSM and CDMA or even more operators and also want to hear your thoughts on how open you are to share your towers with other operators? Thank you.

Anil Dhirubhai Ambani:

Suresh, I encourage you to be more attentive to comments, because most of the questions you have asked I have already answered. I spoke about Reliance Telecom Infrastructure, and I said that there are 12,000 towers that we have transferred. The cost is Rs. 3,000 crore, US\$750 million.

We are rolling out 20,000 new towers that will be funded on the balance sheet of Reliance Telecom Infrastructure by itself. The towers capex is on RTIL without any recourse to Reliance Communications. Okay? So I hope that answers that question.

Suresh, is revenue more important than EBITDA margin and profitability? Since you made the comment that we are lagging behind in revenues. Yes, that's one aspect of it, which I will get Prakash to answer. But, is EBITDA margin and the ultimate profitability more important than revenue growth?

Suresh Mahadevan:

Sir, I think all the three probably go together. I am just expressing basically some of the investor questions in terms of revenue growth. I think one of the areas, which keep coming up, is revenue growth. That is why I asked. Of course, EBITDA and net profit are probably more important I would say.

S.P. Shukla:

Right, Suresh. So there is a three-pronged action, which helps in improving revenues. One, as our coverage is growing exponentially, which we shared with you, that allows us not only to get new subscribers who bring in fresh revenues, it also allows roaming opportunities to existing subscribers so that they stay on the network longer, which adds to the revenues. You will be seeing this improvement.

Second, as we covered last time also, we have started launching one after another value-added services, which have started kicking in revenue benefits. For example, CRBT, Caller Ring Back Tone, voice portal, missed call alert. They have been launched over the past few months, and have started adding to revenues.

Third, data services we are pushing in a very big way. Today, we already have over 70% market share in wireless data cards. We have the unique position that a customer can be on our network and enjoy the highest possible data speed of 144 kbps anywhere in the country as against our peers in the industry who will be able to offer this service in just a few towns where they have launched Edge service. So, this data service has been taken up as a major initiative, and it will account for increasingly large percentage of our revenues going forward.

Suresh Mahadevan:

Thank you.

Operator:

Thank you, sir. Next in line, we have Mr. Shubham Majumder from Macquarie Securities. Please go ahead, sir.

Shubham Majumder:

Hello and congratulations to the management on a great set of numbers. I have a couple of questions. One is, if the net worth of the company, RTIL, is about Rs. 3,000 crores, and its got an existing portfolio of 12,000 towers. And I would assume most of this net worth would be on account of gross block on the assets side. One would come out with a number of about Rs. 2.5 million per tower of gross block that is residing in the books of RTIL. Is that a fair assumption firstly?

And secondly, in terms of incremental tower build out of the 20,000 towers that you are talking about in the next 12 months, what sort of capex per tower would you possibly see going forward? And is that number going to be higher than the existing number or lower than the existing number? Your thoughts and color on that.

Anil Dhirubhai Ambani:

Shubham, the existing towers, some are 5 years old, some are 3 years old, some are 10 years old. There are roof-based towers, there are ground-based towers, there are multi-tenanted towers, there are single-tenanted towers. So, you have got to look at the entire area of towers that you really have.

All the new towers that we are building will be, as I have explained earlier on the call, multi-tenanted for multi-technologies, that means we can do 2G, 2.5G, 3G and 4G all together. And lastly, since RTIL is debt free, all of the funding that RTIL needs is on its own balance sheet with Reliance Communications as an anchor customer and with other potential external customers coming to RTIL. Well, that's the combination that we are looking at, going forward.

Shubham Majumder:

Mr. Ambani, would you be able to give any sort of color on what's the broad capex part going to be for RTIL from a modeling perspective?

Anil Dhirubhai Ambani:

No.

Shubham Majumder:

Okay. And, what would be the optimal sort of sharing ratio or occupancy ratio on RTIL's tower portfolio going forward and if you could just throw some number in this regard?

Anil Dhirubhai Ambani:

For our standalone viability we don't need any external tenants.

Shubham Majumder:

Okay. And any sort of color on break-even for the standalone towers company from the EBITDA break-even or PAT break-even prospective?

Anil Dhirubhai Ambani:

No.

Shubham Majumder:

And finally, are you looking at listing-based value unlocking or will it be a private sale or something like that?

Anil Dhirubhai Ambani:

Yes, we are looking at three or four options. One is strategic partnerships, the second one is listing, the third one is a private equity type deal, the fourth thing is like a private placement. All the options are currently being examined and I have said this in an earlier briefing, which I will repeat, that within the next six months we expect two very major value unlocking initiatives. One will be Reliance Telecom Infrastructure, and the second one will be the listing of Flag. Both these will be high value creators for all the stakeholders of Reliance Communications.

Shubham Majumder:

And my last question, Mr. Ambani, was that during the last call you had said that at the end of this fiscal year you will give us more color regarding the spending heads for capex in fiscal year 2008, out of the \$2.5 billion capex in fiscal year 2008. Could you just give us some sense as to how much?

Anil Dhirubhai Ambani:

No. I don't think we are going to give any breakdowns of our capex by business segment. As I have said, we want to do non-GSM circles, the rest of India, on GSM. We will spend \$1 billion there. I have said we will spend \$2.5 billion in the coming year on the various services that we are going to offer across Reliance Communications.

Shubham Majumder:

Okay, thank you. I will come back, if I have more questions. Thanks.

Anil Dhirubhai Ambani:

Thank you.

Operator:

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

Rahul Singh:

Good evening sir. My question related to the \$1 billion GSM capex, which you proposed, which you said will be sufficient for nationwide roll-out of GSM. Now US\$1 billion is only on the active components, that's number one. So what kind of capacity creation are you looking at by \$1 billion of GSM capex? Not only in terms of minutes, if you can give some qualitative color also. And also, in terms of population coverage, as compared to your CDMA. So if your CDMA let's say has 60% population coverage in those 16 circles, whether this \$1 billion would be enough to match the CDMA coverage?

Anil Dhirubhai Ambani:

What I have said is, wherever we are not operating in GSM and CDMA, in the balance of the circles in India, we will require \$1 billion capex for active infrastructure. The passive infrastructure is already being rolled out by Reliance Telecom Infrastructure.

And we will have the coverage. Whatever coverage we are offering on CDMA we will have the same coverage on GSM.

Rahul Singh:

So, similar population coverage. Okay. Thanks.

Operator:

Thank you, Mr. Rahul Singh. Next in line we have Mr. Sanjay Chawla from JPMorgan. Please go ahead sir.

Sanjay Chawla:

Hi, thank you for the call. I have just two questions. One is, what kind of outlook the management has on the long-term EBITDA margin in the Wireless business today without assuming any roll-out of fresh GSM? And secondly, what kind of a lease rate would the tower company, that is RTIL, be charging the anchor tenant which is Reliance Communications?

Anil Dhirubhai Ambani:

As far as the tenancy revenues are concerned they are all to be market driven, arms' length revenues. Considering that multiple tenancy will be taken by RCOM for various technologies, that will be appropriately factored. As far as EBITDA margins are concerned, we believe that immaterial of GSM or no GSM or CDMA, we believe that our targets are to try to maintain the current ranges of EBITDA margin going forward.

Sanjay Chawla:

All right. Thank you very much.

Operator:

Thank you, Mr. Sanjay Chawla. Next question, we have from Srinivas Rao from Deutsche Bank. Please go ahead sir.

Srinivas Rao:

Srinivas here, I have two questions. One, I wanted to clarify what are the total number of towers which exist within the company, with both RTIL and RCOM.

Anil Dhirubhai Ambani:

13,000.

Srinivas Rao:

Okay. Thank you, sir. Second, I just wanted your comments on the recent DOT auction wherein most of the operators who bid in that auction actually bid for a zero to negative subsidy in terms of operating wireless networks in rural areas.

Anil Dhirubhai Ambani:

Yes.

Srinivas Rao:

Are you trying to say that if the tower capex and opex is not there, then the business model is viable even in rural areas?

Anil Dhirubhai Ambani:

Srinivas, I'm not privy to everybody else's operating strategy. Let me tell you what we have achieved. I'm just rounding off numbers – over 500 towers will be built by us, out of 8,000. And we will have a free tenancy on 8,000 towers for five years without paying any rent. And if we assume that whoever is building those towers, in this case it is BSNL, will be rolling out by end of this year. So we will be operating in 8,000 rural locations on a nationwide basis by putting our electronics in without paying a single rupee in capex for the towers or paying any opex for putting the electronics on the towers.

Srinivas Rao:

But I presume there will be some running expenditure.

Anil Dhirubhai Ambani:

Running expenditure, that is fine, but I'm just saying that there is no rental. So, if anybody wants to come even close to operating in 8,000 locations, which is what we have achieved from the USO tender, it will require a multi-billion dollar capex to get there.

Srinivas Rao:

Thank you, sir.

Operator:

Thank you, Mr. Srinivas. Next in line we have a follow-up question from Mr. Henry from Nevsky. Please go ahead sir.

Henry Cobbe:

Hi, thank you again for taking my call. I just wanted to confirm what the total volume of traffic was on the mobile side in the last quarter and over the full year. And lastly, on FALCON. Is it going to be a step change up to the \$450 million revenues or would you be including this in a phased way?

Daniel Newman:

Henry, the wireless total traffic was 42.5 billion minutes in the last quarter that worked out to 541 minutes per customer per month.

Henry Cobbe:

Okay.

Punit Garg:

Can you please repeat the question on Flag?

Henry Cobbe:

Yes. I'm aware that FALCON is coming on line next year and you'll start booking the revenues. You said its US\$450 million of revenue that is not yet recognized. I am just wondering how much of that is going to be coming on during the next financial year or there is going to be some step change or whether it's going to be phased up over the next 2-3 years?

Punit Garg:

I think, let's understand this a little bit. When we said US\$450 million worth of contracts – as we have spoken in past – this is pre-sales done on Falcon. This helped us in building Falcon as well, in terms of pre-commitments from our landing partners. Now, Falcon was launched and commissioned in September '06. Now, this is a large capacity, which has been bought by most of the carriers in that region, where Falcon has enabled them to connect on to the global network. Now, they would be activating this capacity, which is in multiples of STM-1s over a period of 18 to 24 months, which has started in September '06 and that's where I mentioned that you would see most of it activating in the current financial year. Thank you.

Henry Cobbe:

Okay. And the very last question, can you just give us the traffic volumes for the long distance business space – domestic and international – for the full year?

Daniel Newman:

Henry. For the fourth quarter, as we define it, there was 1,503 million ILD minutes and 4,873 million NLD minutes.

Henry Cobbe:

Okay. And the net revenue per minute for the long distance business?

Daniel Newman:

I think that is not a metric we disclose.

Henry Cobbe:

Okay. Thank you very much.

Operator:

Thank you, Mr. Henry. There is again a follow up question from Mr. Rajeev Sharma. You may go ahead sir.

Rajeev Sharma:

Thanks a lot for the second opportunity. My follow-up question is that there is a small amount of confusion regarding the total capex for FY '08. It is \$2.5 billion for RCOM and the 20,000 towers is in addition to RCOM's \$2.5 billion capex?

Anil Dhirubhai Ambani:

Yes. RTIL will implement on its own balance sheet the capex for the 20,000 towers. RCOM will implement its US\$2.5 billion capex as announced in the past.

Rajeev Sharma:

Thank you, sir.

Operator:

Thank you. Next in line we have Mr. Anil Srivastav from India Advisory. Please go ahead.

Anil Srivastav:

Hello, sir. Thanks for the call. So, please can you share with us your strategy and outlook on IPTV services?

Anil Dhirubhai Ambani:

Yes. I think that we have made a mention that already the trial runs are going on. We expect to launch commercial services of IPTV in selected networks towards the end of this year. Also, separately, we expect to launch nationwide DTH services by the end of this year.

There is a one last question please?

Operator:

That was the last question, sir.

Anil Dhirubhai Ambani:

Okay, thank you so much. Thank you.

Operator:

That does conclude our conference for today. Thank your for participating.

END OF TRANSCRIPT