



RELIANCE COMMUNICATIONS LIMITED

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Transcript of Earnings Conference Call for the Quarter Ended December 31, 2007

Conducted at 5 pm IST on January 31, 2008

Operator:

Thank you for standing by and welcome to the Reliance Communications Global Earnings Conference Call on the Reliance audio conferencing platform. This call is hosted by UBS Securities. At this time, all participants are in listen-only mode.

There will be a presentation followed by a question-and-answer session, at which time if you wish to ask a question, please press "star", "one" on your telephone. Please be advised this conference is being recorded today.

I would like to hand the conference over to Mr. Suresh Mahadevan of UBS Securities. Over to you, sir.

Suresh Mahadevan:

Thank you. Good morning, good afternoon or good evening ladies and gentlemen. We at UBS are pleased to host this call for the third quarter results of Reliance Communications for the fiscal year ending March 31, 08.

We would like to congratulate Reliance management on yet another quarter of strong financial and operating performance. Today, we have the entire senior management team from Reliance Communications led by the Chairman, Mr. Anil Dhirubhai Ambani, and leaders of the company's various strategic business units, Mr. S.P. Shukla, who leads the Wireless, Mr. Punit Garg, who leads the Global Data including FLAG Telecom, Mr. V.K. Aggarwal who leads the Global Voice and Mr. Prakash Bajpai who leads the Enterprise Broadband business. The call will begin with some key observations from the Chairman and Senior Management of Reliance Communications followed by a question-and-answer session.

I would like to remind you that the overview and discussions today may include certain forward-looking statements that must be viewed in conjunction with the risks that the company faces. It is now my pleasure to hand over the call to Mr. Anil Ambani. Thank you. Over to you, sir.

Anil Dhirubhai Ambani:

Thank you, Suresh. I welcome all of you to this earnings call to discuss Reliance Communications' financial performance for the third quarter ended December 31, 2007.

I would like to start with an overview of the Indian telecom sector. India remained the fastest growing wireless market in the world with net subscriber additions consistently aggregating more than eight million for several months now. We believe that India's wireless subscriber growth is positioned to accelerate further with the impetus provided by the progressive policy framework adopted by the Government. With the removal of barriers to competition, we expect a level playing field for all operators and improving affordability of wireless services from the efficient utilization of scarce radio spectrum. We expect the social economic benefits from this change to accelerate connectivity across the country and drive India forward on the path of progress.

Apart from the growth in mobility services, we remain very, very positive about the opportunities that lie ahead in mobile value added services, long distance voice and data services, enterprise data services, consumer broadband services, and several other related businesses on a global scale.

Reliance Communications as a fully integrated and converged telecommunications service provider, is best positioned to capture growth in this wide array of businesses over the next several years.

Now I will share with you some key corporate developments that have occurred since I last interacted with all of you, three months ago.

We have received requisite approvals from the Government and the startup spectrum in 14 additional circles to rollout our nationwide GSM services. This will be in addition to our existing nationwide CDMA services.

We now expect to capture a larger market share of India's mobile subscriber additions by focusing on the entire spectrum of the addressable market. This includes both high-end customers requiring seamless global connectivity on voice, data, email, internet, as well as price sensitive first time mobile subscribers in the remotest corners of India. We will provide significant value to all our customers at every single price point.

We have been operating a dual technology network that is GSM and CDMA both, in nearly one-third of the country for the last four years where we have a net adds market share of over 30%. We have emerged as the single largest mobile operator in these circles. Now, we will be the only operator in the country to offer both CDMA and GSM services on a nationwide basis.

While expanding our GSM footprint, we expect to derive substantial capex and opex synergies from our existing network investments which are technology independent. These include our telecom assets such as passive infrastructure, transport network, our customer acquisition led investments including the Reliance brand and nationwide sales and distribution network as well as our customer support infrastructure including contact center facilities and all back-end IT and billing systems.

Overall, this strategy allows us to generate incremental airtime minutes at substantially lower capex and opex per subscriber. Given these advantages, we expect to sustain our margins and build unique competitive strengths in the marketplace.

Allotment of startup spectrum to Reliance Communications and to other operators is also a key positive from the perspective of our telecom tower subsidiary, Reliance Infratel that operates the largest portfolio of multi-tenancy towers in the country. These assets are supported by Reliance Communications' optic fiber connectivity spanning 100,000 route kilometers, which is more than twice that of any other private operator. Reliance Infratel will have over 36,000 multi-tenancy towers by FY2008 and over 60,000 towers by FY2009. Just for the record, our 60,000 towers, with average tenancy of three or nearly three, are equivalent to 80 to 100,000 towers of our competitors.

During the third quarter, our subsidiary FLAG Telecom received approval from the FCC for the acquisition of US based Yipes Holdings, Inc

The combination of Yipes' Enterprise Ethernet services, FLAG's private undersea cable system and Reliance's commitment to expansion and growth create a global service delivery platform with unmatched coverage and capability. FLAG is already witnessing significant acceleration in its network services and value added services portfolio apart from strong demand for capacity from telecom majors across the world. The integration of Yipes is expected to further expand FLAG's participation in the exponential growth of the digital applications and content distribution markets globally.

There are also some key developments in the soon to be launched home business comprising both Direct To Home that is DTH and IPTV. We announced that Reliance Big TV, which has the license to provide the DTH services, has become a wholly owned subsidiary of Reliance Communications. We also signed a strategic

partnership with Microsoft to use Microsoft Mediaroom middleware software for our IPTV services.

Financial performance: Now I turn to our financial performance during third quarter of the current fiscal year.

Revenues increased by 30% over the corresponding quarter last year to Rs. 4,874 or US\$ 1.24 billion. Once again, our margins remained strong, expanding by over 270 basis points to more than 43% during the third quarter. We clearly remain the most profitable telecom company in the country with the enviable record of expanding our margins in each and every quarter since we started tracking these numbers, making us the youngest company globally to reach every profitability milestone. EBITDA for the quarter when compared to the corresponding quarter last year expanded by 38% to Rs. 2,106 crores or US\$ 534 million.

Our EBITDA margin on net revenue increased further to 56%. We remain amongst the top 10 global telcos on this parameter. The sustained growth in margins is even more commendable given our accelerated expansion into the heartland of the country. I reiterate that we expect to maintain our profitability benchmarks as we expand our network into rural India. We are fully focused on rationalizing the cost of every minute delivered from our network that will drive our profitable growth.

Our second quarter net profit increased by 49% to Rs. 1,373 crores or US\$ 348 million. With this rapid expansion in profit, the return on networth remains firm at 35%. This is despite the significant increase in the investments undertaken for the expansion of our business in India and internationally.

Going forward, leveraging these investments for sustained growth will expand returns and drive value for all our stakeholders.

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

ARPU was at Rs. 339 per month during Q3. Reliance Communications' ARPU has declined marginally by an average of 3.5% over the last four quarters which is the lowest ARPU decline across the Indian telecom sector. Our revenue per minute of 75 paisa from wireless customers once again remains stable. With the sustained depletion of RPM seen across the industry, we have now fully closed the gap with our competitors. With ever increasing value delivered to our growing subscriber

base, we are confident that we will soon emerge as the leading operator on the key parameters of both revenue and profit per minute.

I would now like to highlight a few key aspects of our balance sheet.

We invested more than Rs. 8,800 crore or over US\$ 2.2 billion in just one quarter during the third quarter. To put this in perspective, capex incurred during Q3 was far in excess of our entire capex during the previous year and more than double that incurred by any other Indian operator in any single quarter. It exemplifies the magnitude of our initiative to drive the world's largest network expansion programs both in India and Internationally.

Our total asset base today stands at almost Rs. 60,000 crore or more than US\$ 15 billion. Even after committing investment of such significance, our liquid assets of more than Rs. 11,000 crores or almost \$3 billion, growing operating cash flows and debt equity ratio of just 0.28:1 provide us with a substantial resource pool to support our aggressive growth plans.

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

S P Shukla:

Thank you, Mr. Ambani. And good morning, good afternoon and good evening to all participants on this call. Our Chairman mentioned in his opening remarks that we have received the startup spectrum to operate GSM services in 14 additional circles over and above the existing eight circles where our GSM service is already operational. This makes us the only company in India, which will provide services on both CDMA and GSM technologies on pan-India basis.

During the quarter, we added 4.6 million wireless subscribers, increasing our share of market net adds to more than 19%. Our share of net adds in six dual technology circles was consistently higher than 30% as it has been for the last several months.

Our wireless revenues during the quarter increased by 44% to Rs. 3,957 crore compared to the corresponding quarter last year. This has taken us past the key milestone of over US\$ 1 billion wireless revenues in just one quarter. During the same period, EBITDA has also shown robust increase from Rs. 10.3 billion to Rs. 15.8 billion that is US\$ 400 million, a growth of over 53%.

During the quarter, we strengthened our handset offerings through the launch of several new handset models at the higher end. We continued to work closely with major handset vendors to introduce new models in the open market on the CDMA platform. This has increased the choice of handsets to our customers.

For our email savvy users, we introduced Blackberry on both CDMA and GSM platforms. The product has received excellent response with a large number of existing customers quickly upgrading to the Blackberry device. Our innovation has been on the Worldberry launch which allows our CDMA subscribers to use GSM roaming all over the world with a GSM card on the same device without change of number. We are the only operator in India today offering such a unique data roaming facility to our customers making them equally at home in US, Canada, China, Europe or any part of the world.

We are more focused on the color range in our proprietary Classic brand. Reliance once again created history by launching its Classic color range at a price point of Rs. 999 which has been very well received in the market. We are confident that this will attract a large segment which needs a feature rich color handset at affordable prices.

Looking ahead, I would like to talk about two initiatives, which will lay the foundation for strong growth of our wireless business in the coming quarter. We are accelerating the expansion of our distribution network which includes growing our chain of exclusive retail outlets rapidly. This will enable us to participate more significantly in the organized retail segment. It will give impetus to subscriber acquisitions, handset upgrades as well as fresh handset sales, and superior customer service for our walk-in customers.

Our other unique initiative had been to introduce a new price point of 99 paise per minute for all local calls in the prepaid segment. This has been based on our experience that price elasticity ensures a quick ramp up in call minutes which not only offsets lower per minute tariff but also increases overall revenues.

With network expansion moving at fast pace, we are confident of providing the best service package to our customers with synergistic offerings between GSM and CDMA, mobiles and FWP, and voice and data services.

Now, I handover to my colleague, Mr. Punit Garg.

Punit Garg:

Thank you Mr. Shukla. Greetings from the Global business. Gentlemen, I would like to provide an overview of RCOM's Global and FLAG business.

In this quarter, the total value of contracts signed was Rs. 440 crore or US\$ 112 million. This compares, with Rs. 327 crore or US\$ 82 million achieved in the last quarter. Network services that include IPLC, IP Transit, Global Ethernet and VPN as well as Value Added Services that include Managed Network Services contributed Rs. 159 crore or US\$ 40 million of the contract value in the third quarter on an annualized basis.

Capacity services contributed 62% of the annualized contract value i.e. Rs. 264 crore or US\$ 67 million in the third quarter. Major customers for capacity services during the quarter included Integrated Telecom Company of Saudi, Saudi Telecom, Verizon and France Telecom with aggregate contract value of Rs. 190 crore or US\$ 48 million.

We completed the acquisition of Yipes Holdings, Inc. We received all necessary approvals including FCC and closed the acquisition ahead of schedule. As you are aware, Global Ethernet is the preferred means of connectivity for businesses due to its 'plug and play' technology and security features.

As per market data, from Vertical Systems group, Global Ethernet is the fastest growing segment of the data services market, it is projected to climb to US\$ 30.7 billion by 2012.

Yipes is already the market leader in the fast growing, highly data security sensitive and capacity intensive, Financial and Legal industry verticals. In fact, Yipes is the #1 or #2 provider to NASDAQ, New York Stock Exchange and Chicago Mercantile Exchange in US. Yipes also has growing presence and customer base in Government and Healthcare segments.

Our objectives for 2008 with respect to Yipes are very cleared and defined.

1. We are rebranding Yipes' services as Reliance Globalcom for better synergy with Reliance Communications and FLAG network present today in over 40 countries.
2. We are in the process of integrating the management and processes with FLAG and Reliance Communications to offer a seamless platform to all of our

enterprise customers across the network of Yipes, FLAG and Reliance Communications in India.

3. Our focus would be to double the market presence in US. We are currently present in 14 metro markets and we would be growing this to 28 metro markets within US during the current year. This will address revenues of US\$ 4 billion, and if we get a pie of that, it is to your imagination...
4. We'll rollout Yipes' services in India, where the estimated market potential is over Rs. 4,000 crore or US\$ 1 billion by 2010. We are in the process of developing the channel partners to sell Yipes' services in the Middle East, Europe and Asia on FLAG's footprint.

We are leveraging our global connectivity and network management expertise to build our Hosting Services business as part of our Value Added Services portfolio.

We are upgrading our hosting facilities in London and Hong Kong. We are increasing the power and rack space in our London Hosting Center as well as our Hong Kong co-lo center and we would be adding over 35,000 square feet or over 700 rack space in both the data centers.

In addition, we have established a Managed Storage Services Operations Center in Mumbai. We initiated Managed Storage Space services for one customer, Glasshouse Technologies, one of the largest vendor-independent professional storage services companies providing Managed Storage directly to enterprise customers such as BP, Johnson & Johnson and several others. We will resell Glasshouse's Storage Services as part of the FLAG suite of Hosting services. Managed Storage Services is a big opportunity with estimated market size of over US\$ 30 billion.

To strengthen our Hosting services, we are planning to launch Application Delivery Network services. We've already signed a five-year agreement with Netli, which is now part of Akamai, for Application Delivery Network (ADN) services and will be the first licensee to market the Netli products in India and the Middle East. Application acceleration is again a fast growing market estimated to be at Rs. 13,000 crores, which is US\$ 3.3 billion by 2010.

During the last quarter, we awarded a turnkey contract to Alcatel Submarine Network, which is part of Alcatel-Lucent for the construction of FLAG Next Generation Network cable system between Japan and US. The NGN Pacific system,

together with NGN Mediterranean and NGN Asia will form a terabit capacity loop around the globe. FLAG will be the first and only private cable system with this capability providing unmatched resilience and capacity to our customers. I believe video and content delivery will be the killer applications in the next two years and our network and services will be geared up to support the explosive growth.

We plan to fund the NGN project primarily through pre-build commitments from customers who purchase capacity on these systems. We have initiated discussions with target customers and have obtained encouraging response.

The final hearing on the VSNL arbitration wherein FLAG has filed a damage claim of US\$ 385 million, was completed between 30th October to 10th November 2007 in the Hague and we are now awaiting the final award expected by end of this quarter or beginning of next quarter.

I believe that we are well positioned to make the Global business of Reliance communications and FLAG a truly integrated service provider operating across vertical segments with unmatched global infrastructure, cost and scale efficiency.

I am sure you agree that this makes us a unique play on the exponential growth of digital applications and content distribution spanning developed and emerging markets.

Thank you. Now, I will hand over to Mr. V.K. Aggarwal.

V.K. Aggarwal:

Thank you, Punit and hello everyone. I will give an overview of the Global Voice business.

As you know the global voice business comprising the international voice business as well as the national long distance business, both voice and data. We maintained good performance in this quarter. Despite the competition we were able to maintain our customer base and leading market share in both wholesale and retail segment.

International long distance minutes grew by 19% compared to third quarter last year, increasing to 1.7 billion during the quarter. National long distance minutes grew by 23% over third quarter last year to 5.8 billion.

Despite the strong rupee, our international voice business delivered healthy performance with strong traffic growth in both wholesale and retail.

The Reliance India call business improved its price realizations. As you would be aware, we have a large base of international retail customers, who use our Reliance India Call and Reliance Global Call services. The customer base crossed the 1.4 million mark during the quarter. Despite growing competition, you will be happy to note that Reliance India call remains the first choice in the US for calling India with over 40% market share at retail level.

We continue to expand into new geographies and added more services to the portfolio. We have taken our services to Malaysia and will be expanding into more countries in Asia-Pacific, which have a higher community of interest with India.

We launched International Money Remittance on phone, from the US to India. We have plans to extend this unique and premium service to other geographies.

On our retail platform, we launched 'Reliance Passport Global SIM card' for international travelers from India to the US, Europe, Middle East and Africa. Our calling card offers great savings with the convenience of buying before flying.

We continue to launch new services that are higher up on the value chain to improve our revenue mix from retail and enterprise customers globally. This gives us sustained captive traffic and enables us to meet competitive challenges.

Our substantial long distance network and long standing carrier relationships are the key strengths of our business. We also have the highest number of interconnects with other networks that helps us provide good quality at competitive prices by maximizing carriage of traffic on our own domestic and international networks. In this regard, the expansion of our pan-India optic fiber network to 130,000 route kilometers is expected to further argument our capabilities.

To summarize, we will continue to expand our international retail voice business to new geographies and add more services. We will also aggressively expand the international transit business. We will increase NLD traffic carriage by focusing on new players in this segment providing us the opportunity to sell both infrastructure and bandwidth.

I would now hand over to my colleague, Mr. Prakash Bajpai.

Prakash Bajpai:

Thank you VK, and good day to all participants. Let me now briefly take you through the third quarter performance of the Broadband segment of our Enterprise business.

We maintained our position as the most preferred premier Integrated Solutions provider for top enterprises in this quarter as well. And we continued to maintain our leadership position in voice and data networking solutions and managed Internet data center products. During the quarter, we also augmented our data center capacity by adding a new 30,000 square feet data center in New Bombay.

Our order booking for the quarter reached its highest ever level of Rs. 3.8 billion or almost US\$ 100 million. In terms of number of orders, we booked over 11,200 new orders during this quarter, which is 48% more than the previous quarter. Our customers continued to strongly endorse the quality of our services, range of products and service levels. This is evident from the fact that again 39% of our new orders by value came from our existing customers.

During the quarter, we've also won a project from the Government of Madhya Pradesh for setting up 1,765 rural multimedia kiosks to provide Internet and e-governance applications to the rural masses in the State.

On our building connectivity program, in the premium residential neighborhoods we have connected 60,861 new buildings to our fiber network during the quarter, taking the cumulative connected building to 727,000 buildings. We are extending IP centric metro gigabyte per second Ethernet based last mile to all new buildings that we connect and that is to provide unique multi-play offerings to the residential segments, including high speed secure Internet, Building/Society Intercom Solutions, home Wi-Fi systems, video surveillance applications and of course, the upcoming IPTV and High Definition Television (HDTV) services, which are fully interactive real time video services.

We are now ready with our DTH platform and have commenced technical trials across the country. We will be ready to launch our services shortly.

On the IPTV front, we have finalized Microsoft as our technology partner, as announced earlier in November 2007. At present, we are also undertaking technical trials for our IPTV platform and will be ready to launch our services shortly.

Coming now to the financial performance, revenues in the quarter grew by 44% over the corresponding quarter last year to Rs. 4.56 billion or US\$ 116 million. Our EBITDA grew by 50% to Rs. 2.24 billion or US\$ 57 million with the margins moving ever closer to the 50% mark. I will now hand over to Arvind.

Arvind Narang:

Thanks, Prakash. We will now open the call for Q&A. As you know, time is limited and we request you to focus on key strategic and business issues. We also request each participant to ask not more than two questions and to provide an opportunity for all participants to interact with the management.

If there are detailed financial questions, I'll be happy to answer those separately and please feel free to call me or email me after the Earnings Call.

Moderator, can we take the first question, please?

Operator:

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

The first question is from Henry Cobbe from Nevsky Capital. Please go ahead, sir.

Henry Cobbe:

Hello. Thanks very much for the call. Henry Cobbe from Nevsky Capital. And my question addresses your statement on the tower business. You said you are targeting 60,000 towers by the end of this year, which assuming a tenancy ratio of three, you could have 180,000 base stations. In comparison Indus towers will have about 120,000 towers, and if you make the same assumption about tenancy ratio to three, means 350,000 equivalent towers. Which means that its double your size. And so my question is how would you compete against Indus towers? That's the first question. And the second question is just about the long distance business. Looking at the sequential growth rates, your combined long distance domestic and international traffic was flat quarter-on-quarter, where as one of your main competitors added some 1.3 billion minutes taking them to a 2 billion minute advantage. So that's huge, so what way do you mean that you have earned a higher market share, stable market share in the long distance traffic business?

Anil Dhirubhai Ambani:

Let me take the question regarding Reliance Infratel. We are currently projecting that we will have in excess of 60,000 towers as of March '09. And on an equivalent basis compared to other GSM operators, this would be equivalent to over 130,000 GSM towers. We have our own business model in terms of being an integrated infrastructure provider. So we just don't provide pure tenancy alone. But we provide a whole range of other services to our customers and we will naturally serve Reliance Communications both with GSM and CDMA business. We will serve other potential new entrants who are coming into this business and with the Government announcing its intentions to move ahead with both WiMax as well as 3G, there is enough demand for the quality of infrastructure that we will provide. As far as the long distance is concerned, I'll get my colleague.

V.K. Aggarwal:

Yes. So we said that in the long distance business that on a year-on-year basis, third quarter last year, we had a growth of about 22% on a combined basis. Your question was with respect to the previous quarter. So from the previous quarter, we had a small growth of about 4%.

Henry Cobbe:

Then my second question, you said you had maintained market share and given that your competitor has added 1.3 billion minutes quarter-on-quarter whereas you stayed flat, I don't understand how you maintained market share.

V.K. Aggarwal:

We maintained market share. What we have said is with respect to all the retail calls and international traffic.

Henry Cobbe:

Okay. May I ask just some more general questions. Just on how you view the timing and impact of new entrants into the markets?

Anil Dhirubhai Ambani:

Well, we have always embraced competition and welcomed new participants to this sector, may it be in mobile, whether it is GSM or CDMA, or it is in any range of services. We have our cost position, we have our overall competitiveness, we have our market leadership. And for Reliance Infratel, our telecom infrastructure business, it is outstanding news because there is just so much of demand for our infrastructure business that we will not be able to meet most of that demand.

Henry Cobbe:

And lastly, are you planning to list Reliance Infratel. When?

Anil Dhirubhai Ambani:

We have a number of options in front of us, which we are evaluating.

Henry Cobbe:

Thanks very much indeed.

Operator:

Thank you, sir. Next in line we have Mr. Sandeep Bihani from Lehman Brothers. Please go ahead sir.

Sandeep Bihani:

Good afternoon, gentlemen. Thank you for the call, I have two questions. First of all, on your wireless minutes of use, they are down 8%. So, while revenue per minute is impressive, I would love to hear from you what is driving this contraction and especially because you spoke about usage growth also. The second thing is, what could be your FY09 capex especially considering all the tower initiatives as well as almost a full-blown out GSM network? Thank you.

Anil Dhirubhai Ambani:

Thank you. Let me just take the capex issue and on our guidance. Our preliminary guidance is what I will relate to. For the year ended March '08, we had originally given a guidance of roughly US\$ 4.5 billion or Rs. 18,000 crores. Our revised

numbers as we close March '08 will be roughly US\$ 5.2 billion or roughly Rs. 21,000 crores as this includes the additional amounts in terms of the fee that we paid for our UASL license for operating both CDMA and GSM, and also the acquisition of Yipes. So, I would expect to end March '08 in the US\$ 5 billion range and our current preliminary guidance for March '09 is roughly US\$ 6 billion or roughly Rs. 24,000 crores is what we will hope to spend as we rollout nationwide GSM, as we build out our towers, as we build all the passive and active infrastructure and the entire support systems. So we are currently estimating close to US\$ 6 billion.

S P Shukla:

And Mr. Bihani, I will come to the question about usage growth. We have had healthy usage growth in terms of overall minutes. However, when we talk about usage per subscriber, there is a slight decline, which is inline with our rebalancing of tariff plans. During last quarter, we had mentioned that we have taken a comprehensive exercise of rebalancing the tariff and acquisition plans wherein we had reduced the free minutes being offered at the time of acquisition and undertaken monetization of those minutes through offering new tariff plans, which offer attractive options to the customer. What you are seeing is a balanced effort of RPM and MOU being optimized.

Sandeep Bihani:

Thank you.

Operator:

Thank you, sir. Next we have Mr. Andrew Haskins from Nomura. Please go ahead with your questions.

Andrew Haskins:

Hello. Good evening. This is Andrew Haskins from Nomura in Hong Kong. Two simple questions please. Firstly, can you remind us or can you give us an indication, how long you expect the national GSM rollout to last how many years? And secondly, perhaps I should notice but I don't, can you comment on the extent to which, you can share sites and infrastructure and capex between the CDMA and the GSM networks? Thank you.

Anil Ambani:

Absolutely, as far as, the planned nationwide rollout for GSM is concerned we will aim to start the operations in a year's time. So we don't have the luxury of time, which in your question, you said, how many years. I think we are trying to shoot for the coming financial year is when we will hope to begin the vast majority of our GSM circles. To your question on sharing infrastructure, I think our approach is, as I mentioned in my comments, to look at it as one organization, one network, one country and see that we can share. Our passive infrastructure, in terms of what we require, and in terms of the entire backend support, the IT, etcetera, of course can be shared. So all our major towers will be co-lo towers between GSM and CDMA.

Andrew Haskins:

Thank you very much.

Operator:

Thank you, sir. Next on line we have Mr. Himanshu Gandhi from Hansberger. Please go ahead, sir.

Himanshu Gandhi:

Thank you. Just a couple of questions. One, can you give any kind of the timeframe by which you would launch the 14 new circles in the GSM space and secondly, on your global business, the margin seems to have been in the 25-26% range, so any kind of guidance on what kind of margins we could see over the coming couple of years?

Anil Dhirubhai Ambani:

Himanshu, I just addressed the GSM rollout in a previous question, but I'll restate to you. We are hoping to begin services at the end of this year, the financial year '08-'09. And as far as, the global margins are concerned we aim to be in the 25% range across a wide range of services in the coming year.

Himanshu Gandhi:

Okay. And any kind of timeframe on the possible listing of FLAG and tower company?

Anil Dhirubhai Ambani:

As I said, as far as Reliance Infratel is concerned, we have a number of options in front of us which we are evaluating and I am sure as those developments take place we will keep you informed. As far as FLAG is concerned, we were wanting to integrate Yipes and conclude that acquisition. We have a very large number of investors who are interested in the FLAG Telecom business and post the completion of the Yipes acquisition and the full integration, we will take up those initiatives.

Himanshu Gandhi:

Okay. Thank you.

Operator:

Thank you, sir. Next on line we have Mr. Deepak Kumar from Network Stock Broking. Please go ahead, sir.

Deepak Kumar:

Yes. Hello, sir. Good evening. Congratulations for the good set of numbers. Sir, I just want to know about IP-VPN connectivity going forward or wireless connectivity?

Prakash Bajpai:

Can you repeat the question please?

Deepak Kumar:

IP-VPN connectivity, IP-VPN segment. So going forward, what is your plan of action like how many cities you are looking at or what is the capex involved in that? And what is the model you are going to implement in that?

Prakash Bajpai:

Okay. IP-VPN expansion is part of the long distance network which is built and we already explained that there is over 100,000 route kilometers of fiber which is available.

Deepak Kumar:

Okay.

Prakash Bajpai:

And there is additional IP base that you build on top of that to create the IP-VPN services. We already have the largest MPLS VPN build in the country. And with that we are able to offer our VPN services in any part of the country.

Deepak Kumar:

Okay. Okay, sir. Fine. Thanks a lot.

Operator:

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

Rahul Singh:

Yeah. Good afternoon, everyone. I just had one follow up question on the capex. Firstly on the US\$ 5.2 billion this year, what would be the proportion of capex on the towers? And also of the US\$ 6 billion next year, if you can just outline what would be for the active portion of network capex in GSM and on towers?

Anil Dhirubhai Ambani:

Okay. We are currently projecting for Reliance Infratel, which will be the passive infrastructure, about US\$ 2 billion or roughly 8,000 crores. On the active infrastructure side, which is only electronics on GSM, we are currently projecting Rs. 5,000 crores or roughly US\$ 1.3 billion.

Rahul Singh:

Okay, just one quick follow-up. That will still leave about US\$ 2.7 billion out of 6, so would that mean that CDMA investments will continue for sometime?

Anil Dhirubhai Ambani:

Most of our CDMA business investments are nearly complete as of March '08. We have the FLAG business, we have the Global business, we have the Enterprise business, we have the DTH business, we have the IPTV business, and there are lots of other businesses with great growth potential where there will be investments.

Rahul Singh:

Okay thanks.

Operator:

Thank you sir. Next, we have Mr. Shubham Majumder from Macquarie Capital. Mr. Majumder, please go ahead.

Shubham Majumder:

Yes, thanks for taking my questions. I have two questions. On an earlier question you talked about the rebalancing between the minutes of use and revenue per minute to come up with an optimal mix but ARPU decline has been pretty sharp with 6.1% quarter-on-quarter and a fairly large number on year-on-year basis as well. And the ARPU divergence seems to have started again with some of the other competitors in the industry. Could you just give us some color on how the revenue realization is coming through from incremental clients and why ARPU trend is a little divergent from competition this quarter, and what's the trend going forward?

S P Shukla:

Shubham, ARPU decline is actually less, if you see over consecutive quarter, it's less than competition. When you look at RPM, we have already built the gap with competition on all benchmarks. Similarly on the ARPU front we have maintained a steady trend, which you would have noticed if you look at two or three consecutive quarters. On quarter-to-quarter basis when you make comparisons, there are many factors which come into the picture depending upon who has penetrated how much deeper into the interior of the country. And as you are aware, the incremental customers who comes from the interior of the country, they have lower ARPU than the subscribers who have been in the population earlier. That will reflect the trend, which you will see on a quarterly basis for different operators.

Shubham Majumder:

Sure. And with regard to the 99 paise per minute initiative, what sort of elasticity benefits do you actually expect in the minutes of use resulting from this pre-emptive drop in tariffs. I'm sure there is a strategy behind that if you could just throw some light as to why you would have done it and what's the sort of uplift in affordability take up by subscribers, and minutes of use that may reflect in the coming quarter after this decline this quarter?

S P Shukla:

If you would see the Reliance experience, which we have shared in the past and it has been collaborated by revenue figures and usage figures, every time there has been a decline in effective tariff to the customers, they invariably land up increasing their usage with a certain time gap. This price initiative was implemented only on 5th of January. So we are only 22 days, only three weeks into it. But already the positive signs of price elasticity are becoming visible. So we are confident that you will see positive effect of this in the coming quarter.

Shubham Majumder:

Okay, and finally, a very quick question on FLAG, there seems to have been a big snap in the FLAG and SEA-ME-WE 4 cable systems on 30th of January and internet connectivity is down in a large part of the Middle East and some parts in India and Asia. Is there a redundancy plan in the works and what sort of revenue loss can come through in the coming quarter because of that?

Punit Garg:

When we are looking at the cable cuts, I think this keeps happening and particularly in FLAG it is very, very low in comparison to any other system. We keep building the resiliency in our network and our NGN project is in the same direction. And if you are talking of between Egypt and Italy where the cable cut has happened, we are building a new cable over there, which is the FLAG Mediterranean cable, which will connect Egypt to France. So in future, you would see that FLAG will have a fully redundant and resilient network. The current cable cut would not cause any revenue loss to us, because when we sell unprotected service to our customers – basically carrier customers – that is already accounted for that if there are interruptions, they would buy the restoration on other cable systems. For our

enterprise customers that is being taken care through the restoration on other alternative POPs. Thank you.

Shubham Majumder:

And finally, a last question if I'm allowed to ask to the Chairman. Would you just tell us your strategy with regard to Reliance Technology or Tech Reliance? You know, the media has reported some initiative on that front. And what are the financial or valuation implications from Reliance Communications' perspective?

Anil Ambani:

Yes, I think what we've done is we've created Tech Reliance as 100% sub of Reliance Communications. It will house all the IT and Technology initiatives of the entire group. All the IT and Technology resources across the group will be housed in one company. Reliance Communications is undoubtedly the largest customer of Tech Reliance and we have a business plan in front us not only to meet our needs, but to meet the selective needs of our global customers. A large number of companies around the world who are customers of FLAG Telecom have evinced keen interest in many facets of what Reliance Communications does in its IT and OSS and BSS and other areas. I think those are attractive areas for future growth in the telecom domain.

Shubham Mazumdar:

The spin off of certain IT network related assets from Reliance Communications will happen, and does that have one time cash flow, cash inflow implication for our company.

Anil Ambani:

There is no current plan of spinning off any assets. We've created this as more of a focused intellectual capital company with processes, systems and methods. And as and when there is a need to look at creation of assets, we will have to visit it at that time. At the moment there are no plans to spin off any asset into Tech Reliance.

Shubham Mazumdar:

Okay. Thank you all.

Anil Ambani:

Thank you.

Operator:

Thank you sir. The next in line we have Mr. Vinay Jaising from Morgan Stanley. Please go ahead, sir.

Vinay Jaising:

Thank you, sir. Congratulations, on the great set of results. I have two questions, one on margins and one on capex. The one on margins is that the Broadband division margin at 48.7% seems unbelievably good. What's the way forward there? Also, if you look at your cost, license fees and access costs at one end have gone up and network operating costs have gone down as a percentage of sales. Considering you have so much of capex, I would have assumed it should have happened the other way round since you're building a network I thought your access cost would probably come down. I don't know, if you could throw some light there? My second question is on capex. In the last two quarters we've spent a lot on the Wireless business. Would it be fair to assume that it's largely on CDMA. And, getting 4.4 megahertz of spectrum, do you see that as a problem in terms of the capex as compared to the other players who probably could have got 8 to 10 megahertz from the heritage. Thank you again.

Anil Ambani:

Vinay, let me take the second question and let Prakash answer the first one. As far as the capex that we spent in the first three quarters, it is a balance between creation of passive infrastructure across India, it is representative of covering more than 13,000 towns in our 8 GSM circles, as well as the nationwide coverage of CDMA. So there is a good balance between passive and active, between GSM and CDMA. To your question on spectrum, yes the existing operators have excess spectrum and as you know that we have a petition in the TDSAT on these issues, so I will not be able to comment anything further on that. Clearly all telecom operators would like to get as much spectrum as they can especially when it is free of charge. So we would not be different in that context. We have received our startup spectrum, and I think that when you look at the growth from, I am just rounding out the number from 4 to 6, it is something that we can be done fairly rapidly. And

at 6.2 megahertz, I think we can provide a cost efficient and a quality network going out there. Prakash, you want to answer on the broadband sector.

Prakash Bajpai:

Well, about the margins of the broadband business of the enterprise segment, it's actually a reflection of the customer value that our products and services create for our enterprise customers. You will see the networking solutions, the IT infrastructures services that we provide, the SLAs, the kind of service assurance that we provide to our customers. We do believe that we play a critical role in the growth of our customers' business and we really support their mission critical applications and services for which they are very demanding and at the same time they pay you good prices for it. And that is what will continue to reflect in the margins of the enterprise broadband business.

Vinay Jaising:

Prakash, just on that, you know, if you see the overall costing, the license fee and access costs have gone up quarter-on-quarter from 21.3% to 23%. And the other costs, which has really come down has been, as I said the network cost by about 1.2% from 12.4% to 11.2%. Assuming you guys are spending so much, you will have lots more on-net calls. So I thought your access cost should come down and your network cost should go up, any thoughts on that?

Prakash Bajpai:

Yes. These detailed questions I think we can take it in an offline discussion because probably you are...

Vinay Jaising:

Okay. Thank you.

Prakash Bajpai:

... this is not just about Broadband, I think you are reflecting the overall set of numbers. So we can probably take these two questions offline.

Vinay Jaising:

Thank you, sir.

Operator:

Thank you, sir. The last question for today is from Mr. Anirudh from Goldman Sachs. Please go ahead, sir.

Anirudh Gangahar:

Yes. Thank you very much for the opportunity. Two question from my side. Firstly, can we have some numbers on the external tenancy on the towers if possible on Reliance Infratel? And the second question just as the clarification. Sir, we have spent Rs. 1651 crores for and all India GSM spectrum, and we are getting it in 14. So can we expect the refund of some part of money? Thank you very much.

Anil Dhirubhai Ambani:

Yes. We have applied for a refund in the Reliance Telecom GSM circles. So, we will receive shortly Rs. 112 crore back from the DoT. As you may have noticed, we have also applied for CDMA licenses under UASL in Assam and North East for which we have received approval yesterday. And as far as your question on external tenancy is concerned, clearly we are in discussions with a number of companies especially with the newer entrants who have all been given LOIs. And we will have external tenancy agreements, which will be announced shortly.

Anirudh Gangahar:

Thank you very much sir.

Operator:

Thank you sir.

Arvind Narang:

I would like to thank all of you for taking time to attend this earnings call. Reliance Communications is on the fast track to capitalize on the potential growth opportunities in its business areas, and we look forward to maintaining an ongoing

dialog with all our stakeholders through this exciting journey. Thanks once again for your time.

Operator:

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