

# Time for Transformations

## CHAIRMAN'S STATEMENT

Thirty Fifth Annual General Meeting

Tuesday, November 17, 2009



**Reliance**

**Industries Limited**

Growth is Life

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3rd Floor, Maker Chambers IV, 222, Nariman Point, Mumbai 400 021

My Dear Shareowners,

It gives me great pleasure to welcome you to the 35<sup>th</sup> Annual General Meeting of Reliance Industries Limited.

A special welcome to shareholders of Reliance Petroleum Limited, who are now part of Reliance Industries Limited after the merger.

The Company's accounts for the year ended March 31, 2009, along with the Directors' and Auditors' report, a Letter to Shareholders and Management's Discussion and Analysis, have already been circulated to you.

With your permission, I would like to take them as read.

## 1. Strategic Perspective

Dear Shareowners,

This has been a historic year for Reliance.

Both momentous and memorable.

Just as Shri Dhirubhai Ambani, my father and the Founder Chairman of Reliance, envisioned a decade ago.

His dream of greater energy security for India has become a reality.

This year Reliance Industries Limited commercialized two transformational initiatives.

- The new petroleum refinery at Jamnagar.
- And the deep-sea oil and gas production systems in the Bay of Bengal.

The simultaneous commissioning of these two expansive initiatives is a testimony of the strength of Reliance in complex project execution and new value creation.

They are also transformational for India.

For they enable India make a big leap towards energy security, which is indispensable for national security in today's age.

No other company in India has committed more resources, and worked as fervently and firmly as Reliance, in the pursuit of energy security for India.

This monumental effort comes at a time when India's quest for rapid and broad-based economic growth amplifies her need for energy resources like never before.

Therefore, as I present this report about your company's performance and progress, my greatest satisfaction comes from the fact that Reliance is now making significant contribution as an engine of the nation's economic growth.

By lighting millions of people's lives

Bringing smiles on thousands of farmers' faces

Powering countless businesses, small, medium and big;

Catalysing employment generation for our youth;

And by playing an important role in improving the environment.

The smooth and flawless commissioning and stabilization of both these initiatives in the energy sector is equally transformational for Reliance.

For they will place Reliance on a much higher trajectory of growth and profitability.

And position Reliance amongst the major corporations of the world.

As we set higher goals for Reliance, let me share with you five important transformational initiatives set into motion by Reliance – both on the business and organizational fronts.

**A global transformation initiative** to leverage Reliance's financial and technical skills, open new vistas for our enterprise and for our energetic talent to create new value globally, as the world resets to a new fundamental economic reality.

**A business transformation initiative** to support higher growth, institutionalise best-in-class processes and install new structures for governance, talent management and performance management, to continue on our hyper-growth path.

**An organisational transformation initiative** to bring about best practices, as well as pave the way for the next generation of young professionals in leadership.

**An operational transformation initiative** to bring about greater capital, manufacturing and human resources productivity and efficiency.

Above all, **a rural transformation initiative** that will lay grounds for participation in the alternative energy sector, create rural market linkages, create unique skills required to grow rural markets which can be an engine of growth for Bharat.

These qualitative transformational initiatives are imperatives in the internal organizational space of Reliance, given the imminent multi-fold growth.

They are also necessary in the external business space of Reliance; consistent with an aggressive expansion in oil and gas, petroleum refining, petrochemicals and organized retail initiatives.

Equally, they would enable a Reliance that is prepared to face major macro-economic and business environment challenges.

## **2. Challenging Year**

Dear Shareowners,

This has undoubtedly been a challenging year for Reliance.

The global financial meltdown took its toll on communities, companies and countries.

Export markets for petroleum products, petrochemicals and polyester were impacted.

Domestic markets in the organized retail sector were constrained.

Capital markets around the world were in a state of stupor.

In such a milieu, Reliance proactively addressed these challenges and took several decisive actions to keep ahead of the curve.

These actions include conserving and re-deploying capital to petroleum refining and oil and gas projects for early completion of projects.

Prioritizing expenditure to operationally critical areas.

Controlling working capital, particularly on inventories and receivables.

And above all, concentrating on flawless execution and commissioning of the oil and gas and petroleum refining projects.

Execution, as they say, is the test of intent.

Reliance learnt this dictum from its very inception.

Not only has Reliance become world-class over the years in project execution, but it has also been constantly raising the bar for itself.

All the proactive measures we took helped Reliance perform creditably.

Reliance was able to turn an adversity into an advantage.

We invested for growth when most major global companies were reducing capital expenditure.

And we had multiple achievements in a challenging year that enabled rewarding shareholders.

## **3. Shareholder Value**

Dear Shareowners,

Last year, I stated that Reliance shareholders would be the first to reap benefits of commissioning the oil and gas and petroleum refining facilities.

I am happy to report to you that, as per my commitment last year, your Board has decided to issue bonus shares of one for every one share of Reliance held.

This decision reflects our commitment to shareholder value creation.

I am pleased to inform you that Reliance was recently rated by Boston Consulting Group as the fifth most sustainable value creator globally.

Also that Reliance is the only Indian company in the list of top 25 companies in the World.

This rating was based on tracking of performance over a ten-year period of companies with market capitalization of more than US\$ 30 billion.

This rating is noteworthy because it recognizes that Reliance has been creating value on a sustainable and innovative basis.

It also recognizes that our value creation is balanced and well-distributed among all stakeholders of the company's economic system.

Value creation is a mantra for Reliance.

## **4. Business and Financial Performance**

Dear Shareowners,

Despite the economic downturn, Reliance has come out much stronger in comparison to others.

Large international companies exhibited significantly lower financial performance.

In contrast, Reliance was able to better its performance in relation to the previous year.

We had a record year in terms of revenues and profits.

This received tremendous recognition with Reliance being the only Indian company named in the list of 25 Global Champions for 2009 by AT Kearney.

This list identifies global companies who managed to outperform the competition in the midst of meltdown in financial markets.

Reliance was listed as a Global Champion for combining long-range strategic planning with nimble execution.

And for its ability to execute a disciplined growth-oriented strategy in the transformed global economic landscape.

In a difficult environment for business, Reliance spent close to Rs. 24,713 crore (US\$ 4.9 billion) on capital expenditure.

This expansion in productive capital base is the largest in Reliance's history.

Return on capital employed for Reliance continued to be in excess of 20 percent.

We have the highest ever payout of 130 percent as dividend in our history.

The balance sheet has been strengthened with contribution of promoters' equity.

With a current cash balance of nearly Rs. 19,421 crore (US\$ 4.0 billion), Reliance is among the financially strongest companies in emerging markets.

Net debt is now at less than 21 months of cash flow.

Exports were higher than the previous year by 7 percent.

Reliance continues to maintain its leadership position as India's largest exporter.

Reliance also continues to be one of India's largest contributors to the national exchequer, primarily by way of payment of duties and taxes.

During the year, Reliance paid Rs. 11,574 crore (US\$ 2.3 billion) in various forms of taxes and duties.

All these performance parameters reflect the inherent business strength, manufacturing configuration and organizational robustness of Reliance.

## **5. Polyester**

Dear Shareowners,

The polyester business has been the bedrock from where Reliance set on its remarkable journey of growth, profitability as well as prosperity for its stakeholders.

Today Reliance is the largest polyester producer in the world, with a manufacturing capacity of 2.5 million tonnes per annum.

Reliance continues to build on the polyester growth platform.

We commissioned a polyester industrial yarn plant during the year.

This facility would cater to high-value geotextiles and technical textiles segments.

As these products are consumed by the infrastructure sector, which is envisaged to grow strongly.

Reliance also developed several innovations in products and technology.

Product innovations encompassed carbon fibre composites, cationic dyeable products, environmental friendly coloured fibres, low pill fibre and tow and non-woven fibres in such niche segments as currency paper, wall paper and filter fabrics.

And technology innovations covered an advanced spinning system, resulting in 20 to 30 percent productivity increase.

Recron Malaysia emerged as a leading manufactured goods exporter from that country.

On the fibre intermediates side of the business, Reliance concentrated on efficiency improvements and leveraging domestic growth opportunities.

One aspect of the polyester business that is not widely known is that Reliance is the largest recycler of polyesters in India.

We collect 1,500 million PET bottles from 120 centres across the country.

This effort has resulted in the 'Green Fibre' certification for Reliance, apart from global certification.

This is one of the many innovations that we at Reliance have been doing to show our respect and concern for the environment.

## **6. Petrochemicals**

Dear Shareowners,

While polyester gave Reliance its first growth trajectory, petrochemicals took Reliance to the next level.

Reliance's petrochemical business continues to be the most profitable globally.

Reliance has a comprehensive petrochemical play across polymers, synthetic rubbers and chemicals.

This has been strengthened with the commissioning of the 900,000 tonnes per year polypropylene plant at Jamnagar.

This makes us the 4th largest polypropylene producer in the world.

The new petroleum refinery also brings out several exciting new opportunities for growth and value creation in petrochemicals.

Consequently, Reliance has taken up new petrochemical capacity additions.

At the 2007 AGM, I talked about a new petrochemical complex at Jamnagar, with 2 million tonnes per year of olefins and matching downstream capacities.

Now that the oil and gas and the petroleum refining projects are commissioned, Reliance will work on making this world-class project a reality.

The recent economic downturn has also provided us opportunities to optimise capital costs, schedules and execution methodology for these projects.

With this addition, Reliance will have close to 4 million tonnes of olefins and downstream capacities.

Reliance would be expanding its presence in butadiene rubber and also investing in new styrene butadiene rubber plants to reinforce its position in the synthetic rubbers market.

These capacities would be leveraged on very competitive feedstocks.

With all these bold transformational initiatives in the petrochemicals business, Reliance would be ready to take on the world.

## **7. Petroleum Refining and Marketing**

Dear Shareowners,

Reliance has created history in the petroleum refining business in just a decade.

It was in the year 1999 that the first refinery was commissioned, setting new global benchmarks in scale, complexity, cost and schedule.

The second refinery, of larger scale and complexity, was also recently commissioned in a world record time of 36 months.

Building two of the largest and most complex refineries within a decade at the same location is indeed an epoch-making achievement.

The first refinery transformed India into a net exporter of petroleum products from being a net importer, in one stroke.

This refinery has completed a glorious decade of safe and reliable operations, generating strong cash flows and winning various awards and accolades.

Operating the refinery has been a highly rewarding and enriching experience.

Over the years several new technology platforms and business processes have been configured and proven in the areas of technology development, process and profit improvements, reliability management and safety management.

These proven methods and systems provide a firm footing for integrating more assets as was done for the new refinery at Jamnagar.

The valuable experience gained in implementing and running the first refinery was put into effective use in design, procurement, construction and commissioning of the new refinery, ensuring both speed as well as quality at the same time.

We saw more opportunities in value upgradation – from the bottom-of-the-barrel to highly value-added products and flexibility to process 'difficult' crude oils.

This enabled us to make the design of the new refinery even more complex and flexible as compared to the first refinery.

Akin to the first refinery, the new refinery has the world's largest Coker and FCC plants.

In addition, it also has the world's largest Alkylation unit.

It is for the first time that Alkylates are being produced in India.

The environmentally-stringent, ultra clean fuels, from this refinery, are being exported to most developed and sophisticated markets of the world.

With the commissioning of the new refinery, Jamnagar has now become the petroleum hub of the world, with 1.24 million barrels per day of crude processing capacity, representing the single largest refining complex anywhere in the world.

This is equivalent to about two percent of global capacity or one third of India's capacity, and places Reliance amongst top ten private sector refiners globally.

This strategic asset has placed both Reliance as well as India high on the world energy map.

## **8. Exploration and Production**

Dear Shareowners,

I now turn to the oil and gas exploration and production business.

This is a business that will take Reliance to a higher growth trajectory.

And transform the energy landscape of India.

Commissioning of the KG-D6 project in the Krishna Godavari basin on the eastern coast marks a milestone in the history of Reliance.

The project encompassed the D1 and D3 gas fields and the D26 oil field.

It is a first of sorts for the nation.

It marks India's first deepwater development.

After nearly three decades, a major offshore development went on stream.

The two major deepwater fields have a combined peak capacity of about 550,000 barrels of oil equivalent per day.

This is about 40 percent of India's current indigenous production.

At current prices of crude oil of 80 dollars per barrel, they imply a saving of US\$11 billion (about Rs. 53,000 crore) per year in energy imports by India.

This is about 26% of India's current oil imports and about 5% of India's total imports.

With a production capacity of eighty million standard cubic meters per day, the D1 and D3 gas fields constitute the world's largest and complex deepwater gas production facility.

Amongst international oil companies, this rate of production would make Reliance the second largest deepwater operator and the largest deepwater gas producer in the world.

All of this has been achieved in less than six and a half years since discovery.

This will make it one of the fastest deepwater gas field development projects in the world.

A mammoth feat keeping in mind that this was achieved in our very first attempt and that too in the most challenging of frontiers.

Despite acute shortages in the supply chain related to rigs, manpower, equipment and services, our project teams have tirelessly coordinated this massive project with commendable success.

Cutting-edge sub-sea technology and state of the art facilities have been implemented for sustained production assurance.

Overcoming the challenging oceanic conditions and harsh weather of the east coast, about 80 installation vessels were used.

The gas production levels have crossed 6 billion cubic metres and the field is slated for plateau production by the second half of the year 2010.

200 days of gas production has been completed with 100% uptime, once again demonstrating flawless commissioning and execution.

Oil production from the D26 field has 2.8 million barrels with daily peak production expected by the end of the year.

I must underline that all these efforts cover only three of the 19 discoveries in this block KG-D6.

Initial field development planning for accelerated monetization of nine more gas discoveries in this block is underway.

India consumes more than US\$100 billion worth primary energy each year.

Natural gas from KG-D6 is transforming the energy scenario in the country.

We continue to make aggressive plans in this sector.

We are exploring in more areas.

We are poised to produce in more discovered areas.

We are also augmenting human capital.

Above all, we are committed to make a material difference to the global energy industry, to India and to Reliance.

One new discovery was recently made in the Cambay Basin.

Reliance has had 39 discoveries with an overall success ratio of 52% and a high deepwater success rate of 70%.

This is considerably higher than global averages.

It clearly positions us amongst the top 20 private upstream companies in the world.

We have planned an aggressive exploration campaign aimed at diversifying our search for new accumulations over the next three years.

We plan to drill in a majority of our blocks.

We also propose to accelerate our campaign in the Krishna-Godavari basin.

All these efforts augur well for Reliance's growth and profitability.

For Reliance shareholders' prosperity.

Above all, for India's energy security and prosperity.

## **9. International Oil and Gas**

Dear Shareowners,

Reliance continues to accrue oil and gas properties overseas.

Reliance now has 99,000 square kilometres of acreage in Oman, Yemen, Colombia, East Timor and Peru.

RIL has commenced drilling of its first overseas offshore exploratory well as an operator, in the deep waters of Oman Block 18.

In Yemen, the average production in the Yemen Block 9 was 4,200 barrels of oil per day.

These overseas oil and gas initiatives would reinforce the domestic efforts.

These would also bring about better balance between domestic and international operations as well as between on-shore and off-shore properties.

## **10. Organised Retailing**

Dear Shareowners,

I have always maintained that organised retailing is a major growth platform and a future growth engine for Reliance.

It is also a revolution in the making.

We remain committed to the vision that I enunciated before shareholders.

Reliance Retail is about democratizing access to all types of goods and to every type of customer.

We recognize that food is a vital human need.

And that food security is a major national goal.

We believe that every Indian has a right to cleaner, safer and healthier food at reduced prices.

It is about eliminating waste in the supply chain, preserving food items in hygienic conditions, and reaching higher benefits to both the farmers, and the consumers.

We are also able to make high-quality non-food items available at reduced prices, thus enabling higher benefits for both producers and consumers.

We have a powerful mix of specialty and value formats, each with its own appeal.

There is a strong common appeal of the Reliance brand, across all these formats.

I am pleased to report that we have done extraordinarily well, despite the tough economic conditions.

Today, the Reliance Retail initiative serves over five million loyal customers in 86 cities and 14 states.

This is done through nearly 1,000 stores.

We are developing an ecosystem which will strengthen our offering, while bringing wealth to our stakeholders, primarily marginal farmers, small transporters and vendors.

The encouragement that we get by seeing the smiles on the faces of our farmer partners keeps our enthusiasm and motivation levels high.

We are currently working with nearly one lakh farmer families across 4,000 villages in India.

This direct linkage with the farmers has made Reliance the largest food retailer in the country.

Reliance Retail is poised to write a new chapter in the annals of Indian Industry.

It has recorded impressive growth in the three years of its existence.

Since its inception, Reliance Retail has been growing at a stupendous pace, becoming one of the largest pan-India players in retail sector.

In the last year, we have taken actions to refocus our operations and expansion plans around sustainable growth.

We have focused on doing millions of small things well – every single time and in every single store.

This short breather that we have taken from breakneck expansion has been time well spent, because we have gained a robust foundation on which to build a rapid scale-up in the future.

Having achieved critical scale, Reliance Retail is now working on expanding its coverage.

This expansion would encompass new cities, new markets and new strategic alliances.

Concurrently, Reliance Retail would focus on continuously innovating to enrich the shopping experience, through customised offers, private labels and 'value-for-money' merchandise.

Inherently, Reliance Retail is working towards creating a services play platform for Reliance.

This services platform would be a formidable base for value creation.

The big dream is coming true – quietly, but surely.

## **11. Business Transformation**

Dear Shareowners,

I would now like to turn to a new initiative that aims to bring about a qualitative change in the Reliance organization.

Reliance has consistently generated over 25% year on year returns for the last 30 years.

Reliance envisages a multi-fold growth in the near-term, with a far more widespread global footprint.

This necessitates preparing the organization for a new future, characterized by a changing world of business.

The global financial crisis has fundamentally changed the world of business.

Credit now flows to companies with performance rather than promise.

Capital markets now value companies that create monetary value rather than make-believe value.

Compensation is now linked to results rather than rank.

And corporations now tend to factor flexibility more than feasibility.

New business models driven by new cost structures, partnerships, virtualization and innovation are coming into vogue.

Reliance recognizes these changes in the context of its imminent leap forward.

And has set in motion a business transformation initiative.

There are several elements of this initiative.

Developing new growth platforms for business.

Restructuring resources to enable flexibility to varying levels of business engagements.

Developing a new breed of business, operational and functional leaders to take on the new world of business.

Fine tuning systems and processes for better effectiveness and efficiency.

Piloting projects that are in the realm of alternative energy and that support rural transformation.

Creating shared services for uniformity with rationality.

And recasting performance management systems for greater alignment of performance objectives with organizational needs.

This business transformation initiative would, in my view, create a Reliance that is able to scale up existing businesses; add new businesses both organically and inorganically; and accomplish all this with the least of stress.

In essence, it will transform Reliance into a truly next generation enterprise, prepared for an even more expansive and exciting journey in the coming decades of the 21<sup>st</sup> Century.



## 12. Roadmap for Value Creation

Dear Shareowners,

Last year I talked of smooth start-up and operations of the petroleum refinery and oil and gas production system as the immediate priority for Reliance.

Having accomplished this, we are now engaged on realizing a renewed five-platform roadmap for value creation.

The conventional energy platform is undoubtedly the bedrock of this value creation pathway.

New oil and gas discoveries, new petrochemical project and global growth by acquisitions in the energy and materials value chain would exemplify the first platform.

Our efforts would be to grow the conventional energy and materials platform through greater global scale and competitiveness.

The second platform for value creation is in services, specifically in organized retailing.

Our efforts would be on expanding the edifice created by Reliance Retail at the customer end and reinforcing the supply chain and logistics.

New product and service offerings, expanded footprint of stores and an overarching supply chain infrastructure would characterize these efforts.

The third platform for value creation would be in the renewable energy space, as a natural extension of our conventional energy platform.

Our efforts would be on piloting projects in alternative energy.

Research and proof-of-concept projects in biofuels, solar energy and fuel cells, to understand and enable scale-up, would characterize these efforts.

The fourth platform is in innovation.

It is my firm conviction that the biggest value creator in the future for our company and for our country will be innovation.

Our efforts here would be in new business models and technologies that are either integral or adjunct to our business.

New performance materials and new process technologies would signify these efforts.

The fifth and final platform is in rural transformation.

Our efforts would be on improving income and skill levels by linking farmers in rural areas to urban and export markets.

Equally, it would be on improving quality of lives in rural India through endeavours in education, health, natural resource management and community development.

## 13. Reliance Foundation

Dear Shareowners,

The Reliance growth story is intricately tied to India's social and economic development.

Despite several decades of impressive development, India has many infirmities and challenges in human development.

Inclusive and sustainable development is a sacred obligation for every institution in the country.

For the business community it is more than an obligation – it is a recognition of our enlightened self-interest.

Reliance has a long and strong tradition in supporting the larger communities that it connects with – from education, health, drinking water, large-scale development of employable skills, to assistance during natural calamities such as earthquakes and cyclones.

But I strongly believe that we can, and should, do much more.

I also believe that this effort has to bring into play Reliance's strengths of strategic planning, meticulous detailing and flawless execution on a large format.

With these perspectives, I would like to announce the formation of The Reliance Foundation.

We envisage The Reliance Foundation to become one of the foremost professional philanthropic organizations in the world.

In its charter, The Reliance Foundation would address social development imperatives of India, specifically quality, formal and vocational education, affordable high-quality health care, meaningful rural development and urban renewal, and protection and promotion of India's priceless heritage of arts and culture.

In its character, it would embody a corporate systems and processes-driven organization operating on a not-for-profit basis.

In its constitution, it would comprise accomplished professionals from within and outside Reliance who are deeply committed to contributing to India's development.

And in its capital, it would be endowed with an initial contribution of Rs. 500 crore from Reliance Industries Limited and rapidly scaling up to Rs. 1000 crore. More resources will be made available in the coming years as the Foundation expands its activities.

Reliance has been making significant efforts in nation-building through wealth creation, employment generation, exports and energy security.

The Reliance Foundation would aim to make a similar contribution through meaningful, innovative and effective activities in the social development sphere.

Over the coming months, the Foundation will develop specific programs and projects that will address some of our most pressing challenges.

## **14. Your Blessings**

Dear Shareowners,

Reliance was born as Reliance Commercial Corporation in 1966.

It began its journey with a toddler's small steps, but with a pioneer's big dream.

Today, our steps are a lot bigger, but our dreams are even more ambitious.

I assure you that, on the strength of the new oil and gas and petroleum refining initiatives, Reliance would march forward with far more spring in its steps.

And with far more energy in its entrepreneurship.

To achieve goals never dreamt in the history of Indian business.

Achievements that will draw attention to the Rise of India in the 21<sup>st</sup> century's new world order.

My Friends,

Standing before you at this 35<sup>th</sup> AGM of your company, I wish to make two affirmations today:

The best of India is yet to come.

And the best of Reliance is yet to come.

As Reliance gets ready to make this powerful and purposeful surge, we seek the blessings of our Founder-Chairman Shri Dhirubhai Ambani, all my well wishers and shareholders.

Your absolute backing and benevolence has brought us to where we are today.

It would help us build new value creation platforms.

And lead us to new trajectories and triumphs as a 21<sup>st</sup> Century Reliance.

## **15. Acknowledgements**

With these words, I would like to take this opportunity to thank the Central and State Governments, the Governments of all the countries where Reliance operates, shareholders, investors, bankers, financial institutions, lenders, suppliers and customers for their consistent and resolute support.

I thank all my colleagues on the Board for their unanimous support and immense encouragement.

Finally, I would like to specially acknowledge the commitment and dedication of the entire Reliance Team in creating and sustaining a world-class enterprise.

Thank you.

**Mumbai**  
**November 17, 2009**

**Mukesh Ambani**  
**Chairman and Managing Director**