

## **My dear fellow Reliance Capital shareowners,**

I am delighted to welcome each one of you to this 22nd Annual General Meeting of our Company.

It has been another outstanding year for our company, a year in which we have made huge strides and moved closer to our goal of being amongst the top players in every single business vertical that we operate.

We have emerged as one of the 20 most valuable private sector companies in India, and top 3 private sector companies in financial services. Over the last three years, our market capitalization has shot up by a dramatic 900 per cent to over Rs 30,000 crore (over US\$ 7 billion), creating additional shareholder wealth of over Rs 27,000 crore (US\$ 6 billion).

We have outperformed the Sensex, the Nifty and our peers on stock performance across all time frames - 1 year, 3 years and 5 years, benefiting our over 1.3 million shareowners, by far the largest number for any Indian financial services company. We have outperformed the Sensex nearly two and half times over the last 3 years.

What gives us the greatest satisfaction, however, is the fact that we are today closer to fulfilling the vision of our legendary founder and my father, late Shri. Dhirubhai Ambani.

It was one of Dhirubhai's great dreams to bring the fruits of financial empowerment to millions of ordinary Indians, long denied quality investment opportunities and advice, and in the process, enable Reliance Capital to become one of India's leading financial services players.

We are proud to say that today we are well on our way to translating his dreams into reality.

Reliance Capital is now India's fastest growing financial services powerhouse, serving over 15 million customers - a growth of over 200 per cent over the previous year. Our customer base, among the largest in India in the financial services space, is spread across 5,000 towns and cities, and served by over 12,000 technologically advanced distribution outlets, a 30,000 strong and motivated workforce and over 500,000 business partners.

### **Group Highlights**

Our Company is an integral member of the Reliance Anil Dhirubhai Ambani Group; we are the bearers of a proud name, but an even prouder legacy.

We have a strong presence across a wide array of high-growth consumer-facing businesses

- Telecom
- Financial services
- Energy
- Power
- Infrastructure
- Media and Entertainment

Across different companies, we touch the lives of over 150 million customers, or over 1 in every 8 Indians every single day. Our group enjoys the unparalleled trust, faith and confidence of nearly 12 million shareowners - the largest such family in India and the world.

We are among the largest employers in the country, with a young, highly trained and motivated workforce of nearly 130,000 men and women.

In a short span of just 3 years, our group market capitalization has crossed Rs 2,00,000 crore (US\$ 50 billion) ranking us amongst the top 3 business houses in India.

Our group net worth is in excess of Rs 58,000 crore (US\$ 13 billion). Our cash flows across the Group are approximately Rs 12,000 crore (US\$ 3 billion). Our net profit is over Rs 8,000 crore (US\$ 2 billion).

### **Performance Review**

Our company's accounts for the year ended 31st March, 2008, along with the Directors' Report, Letter to Shareholders and Management Discussion and Analysis, have been circulated to you.

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

I am happy to share with you the highlights of our company's exceptionally strong operational and financial performance during the year 2007-08:

- Total income of Rs 4,919 crore (US\$ 1 billion) - an increase of 128 per cent
- Net profit of Rs 1,009 crore (US\$ 229 million) - an increase of 43 per cent
- Earnings per share of Rs 41.08 (US\$ 0.9) - an increase of 34 per cent
- Book value of Rs 245 (US\$ 6) per share - an increase of 16 per cent
- Total Assets of Rs. 15,374 crore (US\$ 4 billion) - an increase of 134 per cent

### **Strong Financial Platform**

We have created a strong financial platform that will be the bedrock for accelerated future growth.

- Our net worth stands at almost Rs. 6,000 crore (US\$ 1 billion), as on March 31, 2008, placing us among the top 3 private sector Indian companies in the financial services sector, after ICICI and HDFC
- We enjoy the highest credit ratings, of 'A1' and 'F1+', awarded by ICRA and FITCH, respectively

It is this robust financial performance that has enabled us to recommend and substantially increase the dividend from 35 per cent to 55 per cent.

## **The Indian Economy**

The current macro economic climate has been characterized by rising domestic inflation, weakening rupee, hardening interest rates, extreme volatility in capital markets and moderate to severe slow down in leading global economies. The single biggest risk facing the global markets is the multi-dimensional credit crisis in the US, which has already caused major financial casualties, and severely impacted leading high street names from the investment and banking fraternity. This has affected consumer spending and dampened confidence all around.

Given its economic integration with the world economy over the past 17 years, India cannot remain immune to this crisis. Already, the Indian equities and currency markets have been affected by these developments.

However, the impact on the overall Indian economy is likely to be far more moderate, thanks to the calibrated, cautious and conservative approach of our policy planners. Fortunately, the substantial driver of India's growth is still domestic consumption and investment, isolating us further from the fall-out of the global turmoil.

A GDP growth rate of 8 per cent is a rarity in the current global environment - it is noteworthy that India continues to be among the top 2 fastest growing trillion dollar plus economies in the world.

With a domestic savings rate in the range of 30-35 per cent, among the highest in the world, and over 70 per cent of the population below the age of 35, the strong structural foundation of India's economy remains intact, and will continue to power our future growth.

In financial services too, as in many other sectors of the Indian economy, we have barely scratched the surface.

Our country of over a billion people has 350 million bank account holders, but of these, barely 30 million people have mutual fund accounts, and less than 13 million hold demat accounts. While 33 per cent of the US population invests in mutual funds, the figure for India is barely 3 per cent.

The headroom for growth is clearly immense. It is our commitment and belief that Reliance Capital will play a lead role in driving the process of growth and transformation in India's financial markets, as the Indian economy continues to expand.

### **Reliance Capital's growth: The Power of Execution**

Reliance Capital symbolizes the power of execution for the Reliance ADA Group and this is the key attribute that sets us apart from our peers and competitors.

Conventionally identified with brick-and-mortar industry or large manufacturing projects, the power of execution is perhaps an even greater challenge in the services industry in today's highly complex and competitive market scenario. Execution is about the discipline of converting thought into reality.

Of aggregating tens of thousands of skilled people, establishing operating systems and processes, carrying out financial engineering, rolling out extensive distribution networks across the length and breadth of a geographically diverse country like India, and creating a seamless back-end of world class customer care.

And to do all this in a macro environment where, despite massive unemployment, there are serious skill shortages accompanied by rising wage inflation.

It is this power of execution that has enabled Reliance Capital wrest market share from entrenched larger players and cross significant milestones in a short span of just the last three years:

- Revenues up from Rs. 426 crore (US\$ 97 million) to Rs. 4,919 crore (US\$ 1 billion) - 12 fold increase
- Net profits from Rs. 36 crore (US\$ 8 million) to Rs. 1,009 crore (US\$ 229 million) - 28 fold increase
- Total assets from Rs. 2,810 crore (US\$ 639 million) to Rs. 15,374 (US\$ 4 billion) - over a 5 fold increase
- Net worth from Rs. 1,438 crore (US\$ 327 million) to Rs 5,929 crore (US\$ 1 billion) - 4 fold increase
- Customers from 0.6 million to 15 million - 23 fold increase
- Workforce from 2,317 to 30,000 - 13 fold increase

It is noteworthy that this growth is purely organic - and achieved entirely in India. From being a small and insignificant asset management and investment arm of the Reliance Group, Reliance Capital has come to encompass the full spectrum of non banking financial services.

Indeed, it is today a leading player in each of these businesses. We are:

- India's largest Mutual Fund by far
- India's largest broker and distributor of financial services and products
- One of India's top 3 private general insurers
- One of India's top 4 private life insurers

Our focus so far has been primarily retail. We are now looking at also expanding our horizons into the corporate and institutional space with the launch of new businesses such as asset reconstruction, institutional broking and private equity.

Needless to say, this rapid growth and expansion is being pursued without compromising profitability or conservatism. In order to achieve this balance, we have adopted several strategies and measures. We have put in place a tiered system for branch operations, a measured approach towards allocation of capital, and a healthy mix of own and third party distribution reach. In addition, we have focused on optimization of costs and improvement of productivity.

At Reliance Capital, we have remained largely insulated by the global contagion because we have married growth with rigorous financial discipline, profit with conservatism, and operating leverage with risk mitigation strategies.

We have not leveraged our balance sheet in any significant manner. We have not lent money to the sub-prime sectors or invested in leveraged products such as credit or foreign exchange derivatives. We have followed a rigorous evaluation approach in making investments and disbursing loans.

Seizing opportunity in the current turbulent times requires strategic agility, flawless execution, unremitting financial discipline, and an unwavering focus on profitability. These are the very qualities which have powered our success in the last three years, and will continue to do so in the future.

### **Our future plans**

You will be glad to learn that we have drawn up exciting growth plans for the next 3 to 5 years:

- Increase our customer base - from 15 million to 50 million
- Increase our distribution reach - from 4,000 to 20,000 cities and towns across India
- Increase our employee base - from 30,000 to 100,000
- Increase the number of our business partners - from 500,000 to 1 million
- Invest Rs. 2,000 crore (US\$ 454 million) in our insurance businesses, taking our cumulative investment to over Rs 4,000 crore, or nearly a billion dollars
- Enter the banking sector as and when the regulatory environment permits
- Globalize operations leveraging our domestic experience and capabilities - selectively expand our asset management, life insurance and broking operations in emerging markets across Asia, Africa and Middle East

Together, these investments and initiatives will further accelerate our growth momentum and lead to substantial value creation.

Let me now turn to a brief overview of each of our businesses. I begin with the Reliance Mutual Fund.

### **Engines of Growth**

#### ***Reliance Mutual Fund***

Reliance Mutual Fund has, over the years, built for itself a great name by offering to its investors not just consistently high returns but also a highly innovative and diversified portfolio of products and services, and an unmatched track record of integrity.

The journey over the past three years has been spectacular.

In June 2005, we managed barely Rs 6,000 crore (US\$ 1 billion) of assets. Today, we have grown nearly 15 fold, managing over Rs 90,000 crore (US\$ 20 billion). This represents an average inflow of Rs 117 crore (US\$ 27 million) for every single working day over the past three years.

Reliance Mutual Fund has continued to remain the undisputed leader in the industry. Indeed, we have increased our market share from 14 per cent to 17 per cent over the last one year.

In April 2008, we reached a significant milestone, touching the Rs. 1 lakh crore (US\$ 23 billion) mark in assets under management - the first and only Indian mutual fund to do so.

I am proud to report that our Asset Management Company has been appointed this year as one of the fund managers by the Employees Provident Fund Organization (EPFO). A hugely prestigious account, EPFO has entrusted over Rs 6,000 crore (nearly US\$ 1.5 billion) to our company, to begin with, for investment management. The current corpus of the account is Rs. 2,40,000 crore (nearly US\$ 60 billion).

The near-exponential growth in our fund corpus is matched by an equally dramatic rise in the number of people who have chosen to invest with us. Reliance Mutual Fund has nearly 7 million investors - up from barely half a million investors in June 05 - the largest body of investors amongst all private sector mutual funds in the country today. In fact our investor base through the Systemic Investment Plan (SIP) has crossed 1 million, and still growing.

In November 2007, Eton Park, a global investment fund, acquired a 5 per cent stake in Reliance AMC at a record valuation of over Rs 10,000 crore (US \$ 2 billion)- reflecting the value of our franchise.

I am proud to report that for the third year running, Reliance Mutual Fund - the only private sector mutual fund in the country without a strategic foreign partner - has been voted as the 'Most Trusted Mutual Fund' in India, in a joint survey carried out by India's largest business daily and one of the country's largest independent market research agencies.

The growing recognition at home is matched by the accolades abroad. Reliance Mutual Fund has received the 'India Onshore Fund House 2008' from the Asian Investor magazine and has been chosen as 'Fund House of the Year' by Asian Asset Management.

We now intend to also selectively venture into the global arena. We have already received regulatory approval to set up our asset management operations in UK, and are considering launching new funds in the South East Asian markets.

I now move to our insurance businesses.

### ***Reliance Life Insurance***

Reliance Life Insurance is amongst the fastest growing life insurance companies in India.

In less than 3 years of starting operations, we have become one of the top four life insurers in the private sector - growing at upwards of 100 per cent annually.

The new business premium grew over 200 per cent at Rs. 2,751 crore (US\$ 625 million) for the financial year ended March 31st 2008. We have crossed the milestone of the 1.5 million policy mark and are amongst the top 3 players in terms of the number of policies issued.

We aspire to be among the top 3 private sector life insurance companies in the country.

In the past three years, we have ramped up our distribution network from 78 to 750 branches. We expect to more than double this number to reach a target of 1,800 branches by the end of this year. Our agency force has reached 200,000 - a 10 fold increase in the past three years.

Despite the growth momentum witnessed by the industry over the past few years, the potential for future expansion remains as strong as ever, thanks to low penetration levels, attractive demographics, robust economic prospects and increasing investor awareness.

### ***Reliance General Insurance***

In general insurance, we are amongst the top 3 players in the private sector.

Reliance General Insurance earned an annual Gross Written Premium of Rs. 1,946 crore (US\$ 442 million) in the last financial year - an increase of 113 per cent. During the same period, we increased our customer base to nearly 4 million policy holders. Our distribution network was scaled up to 200 branches as against a mere 85 branches in the previous year.

With gross written premium of around 0.6 per cent of GDP, India continues to be one of the most under-served and under-penetrated insurance markets anywhere in the world.

In many developed nations, non-life insurance penetration is pegged at 40-50 per cent of the life insurance market. For India, this figure stands at a mere 15 per cent, reflecting the immense potential for growth in the years ahead. The industry in the past year has gone through significant changes. The regulated general insurance industry received the first dose of liberalization in the form of de-tariffication. As the tariffs were freed, the premiums came down across all sectors. As a result of this de-tariffication, the expenses and claims ratios for the entire industry have risen substantially.

We are implementing a series of measures to ensure that our operations are profitable. We have identified areas where we have experienced higher expenses and claims - and are in the processing of re-pricing the risk. We are also looking at getting into newer segments of liability insurance as well as marine and hull insurance.

## ***Reliance Money***

We started Reliance Money in April 2007, and in just over a year of operations, have emerged as India's largest broker and distributor of financial products and services.

Reliance Money is a comprehensive financial services and solutions provider, affording ready access, both online and offline, to:

- Equities • Equity and commodity derivatives • Foreign exchange derivatives
- Mutual funds • IPOs • Life and general insurance products • Money transfer
- Money changing • Precious metal retailing • Credit cards • Loans

In addition to the home-grown portfolio of products and services that Reliance Capital has to offer, Reliance Money also distributes a variety of third party financial products. It also assists millions of investors in creating customized individual portfolios based on their diverse investment needs and risk profiles.

The opportunities for Reliance Money are significant given that retail participation in India's capital markets, is still amongst the lowest in the world, with less than 5 per cent of household savings invested in equity/equity-related assets.

Over the past year, Reliance Money has expanded its presence to 20,000 touch points. It has 10,000 outlets spread across 5,000 towns and cities across India.

Reliance Money has acquired over 2.5 million customers and now accounts for daily traded volumes of over Rs 2,000 crore (US\$ 454 million), or 3-4 per cent of the average daily volume of transactions logged on the stock exchanges.

While continuing to expand in the domestic markets, Reliance Money has moved into the international arena, setting up operations in West Asia, South East Asia, Africa and Europe to tap the NRI community in these markets. Reliance Money is taking its first steps into the Commodities Exchange business through a proposed stake in the National Multi Commodities Exchange.

Today, with Reliance Money's unique positioning, service offerings and fee structure, even the smallest investor can not only invest in the capital and other markets but also get access to rich information, news and research content - something that was normally available only to large institutions and fund managers.

## ***Reliance Consumer Finance***

We began the business of consumer finance a little over a year ago, in May 2007. In the short time since then, Reliance Consumer Finance has built retail assets of Rs. 8,100 crore (US\$ 2 billion).

Our focus in this business is not just growth of credit per se but the quality of credit. Backed by our long-standing conservative approach, we have developed stringent in-house credit risk management systems to ensure the highest quality of credit.

Going forward, we plan to set up a separate housing finance subsidiary and NBFC for the consumer finance business. We have already filed applications with the concerned regulators in this respect and are awaiting their approval.

## ***Reliance Capital Services***

The Reliance ADA Group offers a diverse range of products and services: from telecom to financial services, from power and infrastructure to media and entertainment. This means that we have a huge pool of customers across our different businesses, who are not using all our products and services.

A Reliance mobile user may not have a Reliance Money demat account or a Reliance Mutual Fund account. A Reliance Power shareholder may not be buying insurance from Reliance Life or General Insurance.

We see tremendous opportunity in cross selling Reliance Capital products across the entire customer universe of the Reliance ADA Group. To capitalize on this opportunity, in July 2008 we have set up Reliance Capital Services, a company that will cross sell Reliance Capital products to the 150 million strong family of the Reliance ADA Group, comprising shareholders, customers and other stakeholders.

Cross selling will lower our cost of customer acquisition and further improve profitability.

## **Human Capital**

Reliance Capital is committed to attracting, retaining and nurturing the best talent, across all its businesses. Our employees, we believe, are the single most important asset in our business and comprise the bedrock of our future growth. Our employee base has increased 22 fold to reach 30,000 as on March 31, 2008.

Our team is among the youngest - with an average age of 29 years - and the best trained - over 21,000 graduates, 5,000 post graduates and 4,000 MBAs and Chartered Accountants.

Our commitment to equality of opportunity and workforce diversity is increasingly reflected in our hiring strategy. Over the last one year, the gender composition of our workforce has improved substantially, with the percentage of female employees going up by as much as 50 per cent.

In addition to educational qualification and experience, we accord the highest priority to ongoing training. To deal with the larger skills shortage in the Indian market, we propose to set up the 'Reliance Capital University', a virtual and physical training institute that will provide quality training to young financial sector aspirants and enable them to acquire world class skills. We have adopted a localized hiring strategy by recruiting from over 300 management institutes located across the entire country.

The Company has instituted a strong performance linked incentive plan wherein the employee's earnings are directly proportional to his/her contribution to business results.

I am delighted to inform you that we have implemented Employee Stock Option Plans across all our businesses. Nearly 400 employees are proud participants in this program. This will be an integral part of overall compensation for our key people, and

will be gradually extended to include many more employees. We are also considering similar stock option plans for our business partners.

Our company has institutionalized a leadership development process, named the Reliance DNA and Leadership Competencies, to continuously identify high potential talent and provide necessary learning interventions to help them step up to bigger roles and responsibilities within the organization.

### **Customer First**

Reliance Capital is built around the wants and needs of our customers. We believe that customer care is not just the responsibility of those who face the customers - but each and every one of us in the company.

In line with this, customer will always receive our highest priority. We have dedicated customer service desks and representatives at each of our over 12,000 outlets. There are 24x7 dedicated call centers for every line of our business and online customer response cells.

### **Quality Focus**

An unwavering focus on quality is the key determinant of sustainable value creation and competitive advantage. Our Quality roadmap, scrupulously aligned with our business priorities, is benchmarked to the best contemporary global practices, and is designed to support our single-minded objective of achieving leadership in each of our businesses.

Over the last few years, our businesses have put in place a foundation of robust business processes and performance measures. Three of our businesses - life insurance, general insurance and the mutual fund are already ISO 9001:2000 certified. The other businesses will soon follow.

This year, Lean Six Sigma has been launched at our businesses with a focus on boosting profitability and contributing to shareholder value

In order to tap the immense talent and creativity of our employees, an organization-wise employee suggestion scheme has been launched. Focused on innovation, this scheme is expected to yield fresh ideas and boost revenues and profitability.

### **Corporate Governance and Social Responsibility**

As part of the Reliance ADA Group, our company is committed to upholding the highest standards of corporate governance and best global practices, with a view to protecting and enhancing shareholder value.

We believe in transparency, accountability and equity, in all facets of our operations, and in every interaction with our diverse set of stakeholders - from shareowners, employees and clients to government and society.

Our governance practices seek to go beyond the mere letter of statutory and regulatory requirements to embrace the true spirit of responsible, aware and ethical

corporate conduct. With this in mind we have formulated a number of policy documents and introduced the following set of governance practices:

- Code of ethics
- Values and commitments
- Business policies
- Separation of Board's supervisory role from executive management
- Prohibition of insider trading policy
- Prevention of sexual harassment policy
- Whistleblower policy
- Risk management policy

Our founder, the late Shri. Dhirubhai Ambani, believed that organizations, like individuals, can only survive, sustain and grow with the support and goodwill of the communities of which they are an integral part, and must pay back this generosity in every way they can.

For us, being socially responsible is not an occasional act of charity or that one-time token financial contribution to the local schools, hospitals or environmental NGOs. It is a continuous commitment, which is integrated into the very core of our business objectives and strategy.

### **Future growth drivers**

The future growth of our company will be propelled by the quality of our human capital, the use of cutting-edge technology, our extensive distribution reach and the highest levels of customer care. We will deploy each of these as strategic drivers to reduce the cost of delivery, improve the speed of execution and enhance customer experience at every point of interface.

"Reliance" is amongst the most trusted brand names in India. We will leverage this brand equity to increase our market share and launch innovative products and services.

We will strengthen and expand our already extensive distribution reach to further penetrate the Indian market and reach sections of people who have hitherto been denied the benefits of informed investment advice and world class financial services. This strength, coupled with our management bandwidth and leadership position across different businesses, gives us an unprecedented platform for future expansion.

There is little doubt in my mind that we will match the pace of growth achieved over the past two years and register compounded double-digit growth for many, many years to come.

We believe that we have a pivotal role to play, both as a company and as a Group, in shaping the destiny of our great nation and providing our hugely talented pool of young people a head start in life.

In keeping with this inner conviction, we will work with dedication and resolve to create pathways that connect ambition to achievement, promise to performance and potential to reality.

As I have always maintained, we are not just about scale and size; we are about the pursuit of excellence, the integrity of our values and the quality of our services.

## **Our Commitment**

Our beloved founder, the legendary Dhirubhai H. Ambani, gave us a simple entrepreneurial mantra: to aspire to the highest global standards of quality and efficiency, operational performance, and customer care.

We remain committed to upholding his vision.

Dhirubhai exhorted us to think big.

We will think bigger.

Indeed, not just bigger but better, creating ever greater value for all our stakeholders

Our journey has barely begun...In the days, months and years ahead, we will scale ever higher peaks of growth and excellence.

## **Acknowledgments**

Before I end, let me acknowledge the contribution of our various partners in success.

My heart-felt appreciation to all colleagues at Reliance Capital for their professionalism, dedication and commitment.

My sincere thanks to the Board of Directors, for their continued support, encouragement and guidance.

My profound gratitude, on behalf of the Board, to all shareowners for their confidence, trust and support.

Thank you, ladies and gentlemen, for your time, patience and attention.

**Anil D. Ambani**

**Chairman**