



RELIANCE Infrastructure

Anil Dhirubhai Ambani Group

Chairman's Statement **79th Annual General Meeting**

Tuesday, September 16, 2008



My dear fellow Reliance Infra shareowners

I am delighted to welcome each one of you to the 79th Annual General Meeting of our Company.

It is a matter of immense satisfaction for me to report to you on yet another year of growth and achievement – a year that also saw the transformation of Reliance Energy into Reliance Infrastructure.

Today, I will outline the strategic vision that guided this process of change and share with you our new growth blueprint.

Over the last few years, we had established our strong leadership credentials in the power sector. It was time to take the next big step forward. We envisioned the need to broaden the scope of our business from power to infrastructure, fully leveraging our core competence in building and managing world-class infrastructure assets.

Our visionary founder and my father, late Shri Dhirubhai Ambani, believed that India's social and economic independence could only come from creating quality infrastructure. Only then would millions of ordinary Indians be empowered to use their extraordinary skills in exploiting the opportunities that exist in our great nation.

Our journey from Energy to Infrastructure has been inspired by Dhirubhai's foresight and vision.

It reaffirms our quest for value creation and reemphasizes our mission of nation building.

This transformation is a tribute as much to the courage, hard work and commitment of our people, who have been the true builders and architects of our great organization, as it is to the generosity of millions of investors who have continued to repose their trust and faith in us.

We now have a much larger stage on which to innovate, perform and deliver.

Backed by an exceptional management team and a hugely competent workforce, we aim to build world-class infrastructure assets in India and help the nation emerge as a major global economic power.

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 the world.

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

In a short span of three years, our group market capitalization has crossed Rs. 200,000 crore, ranking us amongst the top 3 business houses in India.

Our group net worth is in excess of Rs. 58,000 crore.

Our cash flows across the Group are approximately Rs. 12,000 crore and Net profit is over Rs 8,000 crore.

My fellow shareowners, we have embarked on new pathways of growth and value creation. I seek your continued trust and support in the journey that will follow.

Performance Review

The Company's accounts for the year ended March 31, 2008, along with the Directors' report, letter to shareowners and the Management Discussion and Analysis statement have been circulated to you.

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

I am glad to share with you the highlights of our strong operational and financial performance on consolidated basis achieved during the year 2007-08.

- Total income of Rs. 9,760 crore up from Rs. 7,775 crore in 2006-07
- Cash profit of Rs. 1,486 crore up from Rs. 1,138 crore in the previous year
- Net profit of Rs. 1,178 crore up from Rs. 834 crore
- Cash earnings per share of Rs. 64
- Earnings per share of Rs. 51

With a net worth of about Rs 11,690 crore, we count among the top Indian private sector companies.

We continue to remain debt-free at the net level.

We are uniquely positioned to leverage this financial platform for accelerated future growth.

Overview of India's Infrastructure sector

Fellow shareowners, while the Indian economy has moved into a higher growth orbit in recent years, the continuing lack of quality infrastructure has constrained us from realizing our true potential.

The requirement of state-of-the-art infrastructure for stepping up the tempo of economic growth has been acknowledged by all, both in government and the private sector.

In recognition of this clear need, the Government of India has set out an ambitious roadmap in the 11th Five-Year Plan (2007-2012). The plan envisages a capital outlay of about US\$ 500 billion for improving roads, railways, ports, power and water systems, doubling our infrastructure spending from the current 4 percent of GDP to about 8 percent in 2012.

It is estimated that at least 30 per cent of this planned expenditure will be met through private sector participation, whether in the form of public-private-partnerships (PPP), special purpose vehicles or viability gap funding.

Under the various phases of the National Highways Development Programme (NHDP), nearly 17,000 kms of highway lengths, with an aggregate investment of Rs. 1,30,000 crore, are to be awarded to developers on Build, Own and Transfer (BOT) / annuity basis during the 11th Plan. A significant chunk of this investment, estimated at about Rs. 1,15,000 crore, is expected to come from the private sector a 16-fold jump from the Rs. 7,000 crore worth of private investments made during the 10th Plan.

With the government taking several pioneering policy initiatives, the prospects of private sector participation in infrastructure development are brighter than ever before.

We are single-mindedly pursuing the emerging opportunities and expanding our footprint across the entire infrastructure landscape.

We are confident that the further opening up of the infrastructure sector will enable private enterprises to make a meaningful contribution to the development of the country.

Overview of India's Power sector

Power Generation

India currently ranks sixth in the world in terms of electricity generation, with an installed generation capacity of about 1,45,000 MW.

If India's GDP is to grow at an average of 8 per cent per annum, the country's demand for power will escalate dramatically, touching 3,25,000 MW by 2017. This is significantly higher than the projection of 2,18,000 MW made by the Central Electricity Authority. In order to meet this demand, the country has to create a generation capacity of 4,10,000 MW, after adjusting for plant availability, fuel constraints, etc. This amounts to tripling our current capacity - or an additional 30,000 MW every year - a five-fold increase over what India has achieved in the last decade.

Such massive capacity expansion would require equally large investments. Estimates suggest that we need a minimum outlay of US\$ 600 billion for the entire power value chain, consisting of US\$ 300 billion for generation, US\$ 110 billion for transmission and US\$ 190 billion for distribution.

To achieve the goal of "Power for All by 2012", the Government, through the Ministry of Power, has spelt out the following broad strategies.

- Focus on low cost generation,
- Optimization of capacity utilization,
- Control over input costs,
- Optimization of fuel mix,
- Technology upgradation, and
- Utilization of non-conventional renewable energy sources.

Power Transmission

In the transmission sector, the greatest challenge is to create an efficient evacuation system for the huge upcoming additional generation capacity during the 11th Plan. There is also a need to complete the implementation of the Integrated National Grid so as to enhance the inter-regional transfer capacity from the current 17,000 MW to over 37,000 MW.

To achieve these goals, the Working group on Power for the 11th Plan has recommended a combined investment by the central and state governments to the tune of Rs. 1,40,000 crore in transmission facilities.

To enlist the contribution of the private sector in this task, the Ministry of Power has announced 14 ultra mega transmission projects, all of them earmarked for 100 per cent private participation. The total investment in these projects, to be implemented by the end of the 11th Plan period, is pegged at Rs. 25,000 crore.

In addition, Rs. 17,000 crore worth of investments are expected in the state transmission sector. New generation projects of our group company, Reliance Power, will entail another Rs. 23,000 crore of fresh investment.

This presents the aggregate opportunity of nearly Rs. 65,000 crore for our company.

Power Distribution

Distribution is the most critical link in the entire power sector supply chain. It is distribution that pays for investments across the entire supply chain through timely realization of revenues from end users.

During the 10th plan, the average AT&C losses in distribution stood at 35 per cent while the combined losses of state electricity boards ran as high as Rs. 20,000 crore.

A mere one per cent reduction in AT&C losses represents a gain of Rs. 2,600 crore. If all of India reaches the same level of AT&C losses as Mumbai, it would result in a saving of Rs. 65,000 crore, equivalent to 2 per cent of our GDP.

India has, in recent times, experimented with various models of privatized distribution, beginning with the Delhi model of privatization that has yielded significant results, and is now widely regarded as a success.

Others include franchisee models for distribution that are being debated, discussed and adopted in various states, for example, Bhiwandi & Nagpur in Maharashtra and Indore in Madhya Pradesh.

Yet, private utilities currently account for no more than 10 per cent of the total distribution network in India.

Under the Accelerated Power Development and Reform Program (APDRP)-II, the Government of India has earmarked Rs. 50,000 crore for distribution reform during the 11th Plan.

The case for privatization in distribution is compelling. As the leading private player in the distribution sector, we are best placed to benefit from the opportunities that this represents.

Power Trading

Short term trading has given a new direction to the power market. Surplus power available in the market is now selling at anywhere between of Rs. 4 to Rs. 8 per unit. This has helped in mitigating power shortages by encouraging savings as well as additional capacity creation through merchant and captive power plants.

These reforms represent a significant opportunity for power utility companies, both in the public and the private sector.

Infrastructure Business

All our existing and future infrastructure businesses like highways, mass rapid transport system, SEZs, airports will be pursued through Reliance Infraventures, a wholly owned division of the company.

Let me now dwell upon some of our major initiatives under Reliance Infraventures

Metro Projects

The urban landscape in India continues to suffer from lack of quality infrastructure. Nowhere is this more evident than on our roads, where the absence of a speedy and efficient means of public transport is glaring. The government is undertaking a number of large projects, particularly in the metros, to de-congest our roads and create a more viable urban transport system. A major initiative in this regard has been the launch of metro projects in several cities, through the PPP route.

Mumbai Metro Line 1 Project

Our company, in consortium with Veolia of France, was awarded the first ever metro project in the private sector in Mumbai city at an estimated cost of Rs. 2,400 crore. The project, which involves the development and operationalization of a 12-kilometer-long fully elevated metro rail along the Versova-Andheri-Ghatkopar corridor in Mumbai, will bring down the journey time to barely 15 minutes, saving up to 80 minutes for 6,00,000 commuters every day.

The Mumbai metro will provide an affordable world class travel experience, that is safe, efficient and environmentally friendly. The project has been broken up into smaller segments to ensure better control and optimum use of resources. Major contracts have already been awarded.

With term loans of Rs. 1,200 crore tied up, the project is expected to achieve financial closure shortly.

As per the concession agreement, we are expected to complete the work in five years' time, i.e., by September 2012.

Given our track record in managing complex, large-scale projects, we are hopeful of commissioning the metro line by September 2010, two years ahead of schedule.

The construction work for the project, which is going on at multiple locations, is currently in full swing. Detailed design and engineering work is also nearing completion.

Delhi Airport Express Link Project

Our company, in consortium with CAF of Spain, has been awarded the Delhi Airport Metro Express Line project on a Build, Own, Operate and Transfer (BOOT) basis for a concession period of 30 years by Delhi Metro Rail Corporation Limited through an International Competitive bidding process.

The proposed 22.65 km of high speed metro rail line, estimated to cost Rs. 2,500 crore, will connect New Delhi Railway Station to New Delhi International Airport via Connaught Place. It is expected to be completed in a record time of 24 months or by July 2010, in time for the Commonwealth Games.

The Airport Line will use state-of-the-art technology and be comparable to the world's best Airport Link expresses, whether in London, Hong Kong or any other First World city in the world.

The Concession Agreement has been signed and we have achieved significant progress on all aspects of project development, tendering, design and engineering.

We have appointed MTR Hong Kong as engineering and project management consultant, given its experience in developing, operating and maintaining the highly successful Hong Kong Airport Express Project.

We are on course to shortly achieve financial closure for the project.

Other Metro Projects

We are pursuing a series of other opportunities in the Metro sector in India. A consortium led by our company has been technically qualified for the Mumbai Metro Line 2 project, comprising a 32-km elevated track along the Mankurd-Bandra-Charkop corridor at an estimated project cost of Rs. 8,000 crore, spread over the next five years.

We have been selected to develop a 20-km-long MRTS project in Amritsar, at an estimated cost of Rs. 5,000 crore, under the Swiss Challenge method.

Highway projects

The Government of India has launched major initiatives to upgrade and strengthen our National Highways.

We are currently developing five four-laning highway projects in Tamil Nadu, aggregating to a total length of over 400 kms. These projects will cost over Rs. 3,150 crore, making us one of the largest road developers in India.

All our road projects have achieved financial closure, and the construction work has begun in earnest. At least two of them are running ahead of schedule and likely to open for traffic by the end of this year.

We are also pursuing other major projects, including the Punjab Expressway which has a project outlay of Rs. 9,000 crore, spread over the next 7 years. In addition, we have applied for pre-qualification to NHAI for nearly 55 packages totaling nearly 7,000 kms of National Highways. Of these, we have so far achieved pre-qualification for 6 Road packages, with an estimated project cost of roughly Rs. 7,800 crore.

We have also pre-qualified for the Eastern Peripheral Expressway project of 136 kms at Delhi, which is estimated to cost about Rs. 4,000 crore, over the next 5 years.

We have in all pre-qualified for projects worth Rs. 21,000 crore in the road sector.

Specialty Real Estate Projects

Development of specialty real estate has emerged as a key area of focus in our infrastructure portfolio.

We are developing a commercial business district in Hyderabad over 80 acres of land which will include a 100-storey trade tower, India's tallest building to date. This project is being developed under the PPP framework with a project cost of approximately Rs. 7,000 crore. The project site is located on the proposed 8-lane outer ring road, at a distance of barely 6 kms from the new airport.

The project is qualified for unlimited floor space index. In the first phase, we are targeting to construct 25 million sq.ft. of built up area over 7 years, which will be 5 times the size of Nariman Point in Mumbai.

We have received all approvals and are in the process of setting up an SEZ at DAKC, Navi Mumbai at a project cost of Rs. 1,000 crore, to be completed over the next few years.

We have also pre-qualified for operation & maintenance (O&M) and city side development of the Amritsar and Udaipur airports.

Generation, Transmission and Distribution of Power

Power Projects

Our generation plants, with aggregate capacity of 941 MW, continue to maintain high availability and reliability.

The Dahanu Thermal Power Station continues to be the best coal-based power station in the country, achieving a record Plant Load Factor (PLF) of 101.5 per cent and a loading factor of 104.99 per cent. The plant has the best efficiency in the country at an availability of 96.7 per cent. The station is also certified for SA 8000 (Social accountability standard) and ISO 27000.

The station also boasts of an excellent track record of auxiliary power reduction.

With the commissioning of a flue gas desulphurization unit, the first of its kind in the country, the plant has cut down its sulphur dioxide emission by 90 per cent.

All our generation plants are geared to achieve optimum operational efficiency, with a clear focus on energy conservation, auxiliary power reduction and deployment of innovative technologies like variable frequency drives.

We are committed to setting up new operational benchmarks for the industry.

We continue to pursue actively the emerging opportunities in power generation in the country. Our group company, Reliance Power, in which we have 45 per cent equity stake, is implementing all our generation projects, aggregating to a total of 28,200 MW, the largest power generation portfolio for any company in India. All our future generation capacities in thermal, hydro and nuclear will also be developed by Reliance Power.

Our aggregate investment in Reliance Power is only Rs. 1,720 crore. But this investment is already valued in the market at about Rs. 20,000 crore. This represents a 11 fold capital appreciation, or an embedded value of over Rs. 800 per share for each one of the over 16 lakh shareholders of Reliance Infrastructure.

Transmission Projects

To capture opportunities in the power transmission, our wholly owned subsidiary, Reliance Power Transmission Limited, made an entry into the central transmission sector by winning three projects through international competitive bidding.

Taking this forward, we have set up a joint-venture with Power Grid Corporation Limited, known as the Parbati Koldam Transmission Company Limited, to install 300-km-long transmission lines for Parbati and Koldam projects in Himachal Pradesh. Reliance Infrastructure owns 74 per cent and Power Grid the remaining 26 per cent of the equity in the joint venture. This company will shortly commence construction of the project.

As successful bidders, we have also been invited by Power Grid to take up the development of two projects under the Western Region System Strengthening Scheme-II on a build, own and operate (BOO) basis. Two subsidiary companies, Western Region Transmission (Maharashtra) Private Limited and Western Region Transmission (Gujarat) Private Limited, have been incorporated to take up these projects. These are the first projects to be awarded for 100 per cent private participation on an upfront tariff commitment.

Since the execution of the Implementation agreement with Power Grid in November 2007, we have vigorously focused on project implementation. Efforts are on to finalize a Power Transmission agreement with the Western Region beneficiary States and Union Territories. The beneficiaries have expressed their reservations on certain conditions laid down by the Government of India under PPP guidelines. We are talking to the beneficiaries to resolve the outstanding issues, with the help of Power Grid and the Central Electricity Regulatory Commission (CERC).

Keeping in mind the objective of reliable power supply for Mumbai and the phenomenal growth in demand, we have got regulatory approval to strengthen transmission network. We have finalized an ambitious plan for enhancing our extra high voltage (EHV) transmission network at a capital outlay of Rs. 1,800 crore.

Transmission is an attractive business for us because it offers tremendous synergies with our existing generation and distribution businesses, offering low-risk and assured long-term returns. It also capitalizes on our other known strengths including sound financials, over 13 years of experience in operating and maintaining 220 kV transmission lines, and an EPC track record which is second to none in successfully implementing switchyards, substations and transmission lines. Strong market intelligence, diligent contracting, better survey, design and sourcing capabilities complete the story in what is an exceptionally strong value proposition.

These projects require an investment of about Rs. 4,000 crore, to be spent over 5 years.

We expect to shortly achieve the distinction of being the first wholly private inter-state transmission licensee in the country.

Distribution of Power

Mumbai Distribution Business

Reliance Energy, the distribution business of the company, supplies electricity to 26.3 lakh customers in Mumbai, or nearly two out of every three households.

We are one of the most reliable power companies in the country, with a network that incorporates the best of high-end technology. Our Mumbai distribution business continues to operate at 99.9 per cent reliability.

Our distribution losses are amongst the lowest in the country. Even though when nearly a million plus of our consumers live in unorganized settlements, where the losses are generally found to be much higher.

Cutting-edge technology, quality customer care, and enhanced operational efficiency have been the key drivers of our success.

We have achieved greater interaction with our customers through the introduction of SMS facility for alerts, reminders and acknowledgments. An E-bill facility has also been introduced this year.

Our use of the state-of-the-art SCADA and Distribution Management System has led to faster identification and restoration of faults.

Our focus on enhancing network reliability and reducing the occurrence of faults, through a series of six sigma projects, has

led to improved customer convenience and satisfaction.

Our emphasis on better meter management, energy audit and stronger checks against tampering has resulted in identification of areas with higher losses and theft, leading to enhanced operational efficiency.

The Supreme Court has recently held that bulk supplier in Mumbai have the right to supply power to consumers living anywhere in the city. While we welcome the competition that this will generate and the increased choice that it will provide to consumers, we strongly advocate that the regulators must enforce universal service obligations and not allow selective "cherry-picking" of consumers. It should be obligatory for suppliers to provide power to any consumer who wants it, irrespective of his purchasing power or economic status.

On our part, we are proud that we supply power to some of the most economically underprivileged consumers in the city. Over 10 lakh of our 26 lakh customers reside in slums and have a monthly consumption of less than 100 units.

Delhi Distribution Business

The success of our Mumbai distribution business is now being replicated in the national capital. The Aggregate Technical and Commercial (AT&C) losses of our two distribution companies (Discoms) in Delhi have declined significantly in what has been a long, tough but hugely rewarding journey.

While the losses of BSES Rajdhani Power Limited (BRPL) have declined from over 51 per cent to 27 percent, the losses for BSES Yamuna Power Limited (BYPL) have come down from over 63 per cent to less than 30 per cent.

BYPL achieved a record 9.3 per cent reduction in losses in the last one year alone, resulting in an incentive of Rs. 118 crore thanks to over achievement of stipulated loss reduction targets.

Over the last six years, the average annual rate of reduction in AT&C losses for both Discoms works out to about 5 per cent, which is vastly superior to the combined national average of less than one per cent.

While the AT&C levels in Delhi are still among the highest for any metro in India and nowhere near the levels achieved in Mumbai, they have led to an annualized saving of Rs. 4,000 crore to the Delhi government, constituting 20 per cent of its annual budget.

During the last 5 years, the Delhi discoms have made a capital investment of Rs. 3,200 crore, in addition to an equity investment of Rs. 300 crore, to upgrade & modernize the distribution network and provide quality power to consumers. These investments have yielded cumulative savings of over Rs. 14,000 crore for the state government.

We look forward to the continuing support of our Delhi consumers to further reduce the loss levels and raise the quality of service to the benchmarks set in Mumbai.

The Delhi Discoms are currently focusing on improved internal processes to further reduce the incidence of consumer grievances and ensure faster turnaround on complaints.

State-of-the-art customer care centres, wider payment options, appointment of brand ambassadors, and innovative training have all helped in qualitatively better Customer Relationship Management.

As responsible corporate citizens, the Delhi Discoms have initiated a number of innovative schemes to promote energy conservation. One such conservation initiative, which involves thousands of school children across the capital in promoting greater usage of compact fluorescent lamps (CFL), has been overwhelmingly successful, resulting in the distribution of over 5,00,000 CFL units and a potential saving in power consumption of 22 MW.

We have persuaded the Government of Delhi to make it mandatory to install solar water heaters in all its offices. Similar initiatives are on the anvil in the current year.

Power Trading

During the year, Reliance Energy Trading Limited (RETL), a subsidiary, traded 1,022 MUs of power, making us one of the top three private players in short term trading of market power.

RETL has created a place for itself in the market by focusing on merchant and captive power plants. Trading agreements, of 5 to 10 year duration, have been signed with a number of such plants that are coming up in next two years. This would give RETL a competitive edge in power trading in the coming years.

Engineering, Procurement & Construction (EPC) Business

Reliance Infraprojects, our EPC division, is now the leading EPC players in the Indian power sector encompassing generation, transmission and distribution sectors.

Currently, we are working on multiple power projects. Some of the major projects are the 1,200 MW power project for the Haryana government in Hisar, the 1,200 MW power project of Damodar Valley Corporation at Raghunathpur, West Bengal, and the 500 MW balance of plant project at Paricha in Uttar Pradesh. The largest project is the 4,000 MW Sasan Ultra Mega Power Project of Reliance Power.

In order to ensure speedy completion of these projects, we have tripled our manpower strength from 500 to over 1,500 highly qualified and experienced professionals. This number is expected to increase to over 5,000 professionals in the near future. There will be additional deployment of over 30,000 workers across the various project sites.

Currently, all the projects being implemented by the EPC group are in the power sector. But we are rapidly building competence in other infrastructure spaces like steel plants, monorail, airports and nuclear plants.

In collaboration with Shanghai Electric, we are examining the feasibility of setting up equipment manufacturing facilities for power generation sector to cater to the domestic sector as well as markets in Middle East, Africa and South East Asia.

We are developing a center for engineering excellence for the optimization of the basic design, engineering and performance parameters. This centre will drive the massive engineering capabilities required for executing ultra mega and other power projects. Spread over 1 million sq ft of area at Dadri, it will be the largest institution of its kind in India, equipped with state-of-the-art facilities. The Company has signed a memorandum of understanding with Black & Veatch for engineering consultancy to carry out this initiative.

The EPC Group currently has order book of over Rs. 21,000 crore and expects to make a significant contribution to the growth of the Company.

Business Excellence through quality initiatives

Quality management continues to remain a key focus area for us.

All our generation plants are certified under the Integrated Management System for ISO 9001 (QMS), ISO 14001 (EMS) and OHSAS 18001.

During the year, our Mumbai Distribution was successfully re-certified to ISO 9001:2000. Our Information technology group has been re-certified for ISO 27001 and SCADA group has achieved certification for ISO 27001, the first utility in the country to achieve this distinction.

Meanwhile, both Dahanu and Samalkot Power Stations have been certified for the Integrated Management System (IMS) along with ISO 27001. This certification will help protect and maintain the confidentiality, integrity and availability of all organizational data.

Six Sigma methodologies for quantum improvement along with QMS-ISO 9001:2000 are being actively deployed across the Company.

Information Technology

During the year, we took several significant initiatives in the area of Information Technology, aimed at enhancing the effectiveness of our operations, and providing improved customer service. Some of the major initiatives are -

- Integration of GIS with Enterprise-wide resource Planning platform of SAP, to speed up the work of our operations and maintenance personnel.
- Operationalization of an automatic fault locating mechanism, leading to quicker identification of faults and reduction of repair time.
- Installation of a remote controlled Equipment Monitoring System to monitor distribution transformers on a continuous basis and avoid major failures in distribution transformer.
- Development of a web-based software system for monitoring various real time parameters, necessary for the Availability Based Tariff (ABT) regime.
- Deployment of a pioneering vigilance system which takes meter reading data, and identifies possible cases of theft, thus helping to reduce overall AT&C losses.

Human Resource

We are committed to attracting, retaining and nurturing the best talent in the industry, across all our 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 currently stands at 30,000 and is expected to reach 50,000 over the next three to five years. Eighty per cent of our current workforce consists of technical professionals while another 15 per cent is made up of management graduates & chartered accountants.

These numbers are in addition to the over 30,000 workers who are currently employed on the construction sites of our various infrastructure projects.

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.

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.

As approved by all of you, our shareholders, we have prepared a comprehensive employee stock option plan, to help attract, motivate and retain the best talent in the industry.

Details of the scheme would be announced later in the year.

Environment, Health and Safety

For us, concern for environment, health and safety is a way of life. All our operating power plants, whether at Dahanu, Goa or Samalkot, are ISO 14001 certified for Environment Management and perform far better than the statutory environmental norms. The plants are also certified for OHSAS 18001, the Occupation Health and Safety Management System focusing on continual improvement in health and safety norms.

Efficient use of natural resources like fuel and water, reduction of carbon emission and reduction of heat rate are all integral aspects of overall performance management system. These initiatives, though modest, contribute towards the common goal of reduction in global warming.

The Samalkot plant in Andhra and the wind farm in Karnataka have been certified VERs (Voluntary emission reduction) under the Clean Development Mechanism and more CDM projects are being considered for CER (certified emission reduction) certification.

Corporate Social Responsibility

Our CSR initiative is focused on the implementation of need-based projects in the areas of healthcare, education and environment, and aim at reaching out to the communities that live around the areas of our business.

Our Group has collaborated with a leading NGO to train unemployed students from slum areas in skills required for the service industry. We have encouraged our employees to participate in this project by volunteering for student counseling, resource mobilization and placement support. So far, over 200 students have benefited from this scheme while another 730 students are currently undergoing training.

Last year, we undertook several water conservation, rain water harvesting and drip irrigation projects for green belt development at Dahanu. We also carried out the construction of two check dams and installed more than 400 bore wells in Dahanu Taluka to provide safe drinking water to the community.

A number of medical camps were organized to cater to the health requirements of the inhabitants of Dahanu Taluka.

We continue to honour the best teachers of Dahanu with awards for outstanding contribution in promoting education among tribal students and grant merit scholarships to deserving students in tribal areas. Similar schemes to support educational infrastructure and community needs are being practiced around all our generation plants.

In recognition of its CSR contributions, the Dahanu power station received the Golden peacock national award for the year 2007.

Corporate Governance

We believe that our business operations and actions should enhance our overall enterprise value on a sustainable basis. Our governance practices are therefore designed to go beyond the letter of statutory and regulatory requirements.

We have in recent years adopted several path-breaking governance initiatives, particularly in boardroom practices. They include, amongst others, adoption of a comprehensive board charter, involvement of independent directors in important board committees, and appointment of independent directors on the boards of major associate companies.

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

Awards and Recognitions

It is a matter of pride that our company has received numerous awards in recognition of its outstanding performance in various fields.

The major awards received during the year were the Prime Minister's Shram Awards, the Government of India's Silver Shield award to the Dahanu Power Station, the International Diamond Globe for Quality award, the International Star for Leadership in Quality award, and the Golden Peacock awards for environment management and corporate social responsibility. We also received awards for excellence in energy efficiency and conservation, water and environmental management, and pollution control.

Our IT operations at Delhi Discoms have been recognized at various for both national and international. The major awards won are

- The prestigious "Special Achievement in GIS (SAG)" award by the Environmental Systems Research Institute (ESRI) San Diego, USA. We were selected for the award from among several thousand installations across the world.
- Our IT network, the largest single location network in north India, has been awarded the "SMART Infrastructure Award" by AMD Athlon, while our innovative Automatic Meter Reading implementation has received the CIO 100 Award from International Data Group's CIO magazine.

Shareholder Value

In less than three years since our Company became a part of the Reliance Anil Dhirubhai Ambani Group, there has been significant appreciation of shareholder value.

While the net worth has crossed the Rs. 10,000 crore mark and currently stands at Rs. 11,690 crore, the net profit has risen by 109 per cent, despite the constraints of operating in a highly regulated operating environment.

During this period, the shareholder wealth in the Company has gone up by over Rs. 13,500 crore and the market capitalization of the Company more than doubled to Rs. 23,000 crore. And this, despite continuing recent weakness in the Indian stock market.

Thanks to our outstanding performance, our stock emerged as the best performing stock in the Sensex during the calendar year 2007.

In keeping with our philosophy of creating value for investors, we utilized a part of our funds for buying back 56.6 lakh equity shares at a cost of about Rs. 630 crore, the largest ever such buyback in the country. This will result in improved return on equity.

In keeping with my personal commitment to the shareholders, I decided to voluntarily gift, from my personal holding, 2.57% of the post-bonus issue equity share capital of Reliance Power, comprising 6.15 crore shares, to Reliance Infrastructure. This gift was made to protect the shareholders of Reliance Infrastructure from any dilution in the equity of Reliance Power resulting from the company's decision to waive its quota of bonus shares.

This extraordinary decision, unparalleled in corporate history in India or anywhere in the world, was for me simply a naturally corollary to what I have learnt and imbibed from my father and our founder: As an entrepreneur, protecting shareholder interest is one's first and most sacred duty.

I am confident that with your continued support, we will continue to follow in Dhirubhai's footsteps, maximizing benefits for all our stakeholders.

Our Commitment

Dhirubhai gave us a simple entrepreneurial mantra: to aspire to the highest global standards of quality, 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.

Acknowledgments

Before I conclude, I wish to acknowledge and appreciate the contributions of several individuals, institutions and organizations, who have helped us in our commitment to create world-class infrastructure in India.

I must begin with my profound sense of gratitude to our millions of customers for their trust and confidence, making Reliance Infrastructure one of the most valuable brands of India, a rare distinction in the utility and infrastructure sector.

To all my colleagues for their professionalism, dedication and unmatched commitment to organizational objectives.

To members of the Board for their guidance and support.

To financial institutions, banks, vendors and regulatory authorities for their unstinted support and co-operation.

But, most of all, to each one of you, my fellow shareholders. It is your faith, trust and commitment that has been the single most important factor in our quest for ever higher growth and ever greater excellence.

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

Mumbai
September 16, 2008

Anil D Ambani
Chairman