

CHAIRMAN'S STATEMENT

Twenty-Fifth
Annual General Meeting

Thursday, 24th June, 1999



Reliance
Industries Limited

Growth is Life
www.ril.com

Maker Chambers IV, 222 Nariman Point, Mumbai 400 021.

Welcome

My dear shareholders,

It gives me great pleasure to welcome you all to Reliance's twenty-fifth Annual General Meeting.

The company's accounts for the year ended March 31, 1999 along with the Directors' and Auditors' report, have already been circulated to you. With your permission, I would like to take them as read.

We are on the threshold of a new millennium. I am happy to say that Reliance is well prepared to compete successfully in the new knowledge era. Reliance's vision and agenda for the 21st century continues to be - "Growth is life".

Reliance was the first, and the only, Indian company to clearly articulate a value creation strategy, covering both, financial and business areas. This was done in 1997. Today, Reliance will once again be a pioneer in setting standards for the Indian corporate sector, by enunciating a framework that will serve as the basis for its capital allocation plans.

Operating Performance in 1998-99

Reliance surpassed all its earlier financial performance records during 1998-99.

- Total income reached Rs. 15,161 crores (\$ 3,573 million).
- Net Profit increased to Rs. 1,704 crores (\$ 402 million).
- Total assets stood enhanced at Rs. 28,156 crores (US\$ 6,636 million).
- Networth exceeded Rs. 12,369 crores (US\$ 2,915 million).

Reliance continues to be the largest private sector company in India, on all major financial indicators - such as sales, profits, assets and networth.

Reliance has been a consistent performer. The company's five-year record demonstrates a compounded growth of 24% in net profits and 15% in earnings per share.

Reliance's balance sheet reflects the tremendous strength in its overall financial position. The capital structure remains conservative.

Reliance's successful performance in 1998-99 has been achieved, primarily as a result of the stabilisation of its integrated petrochemicals complex at Hazira. Total production volumes reached an all time high of 7.06 million tonnes in 1998-99.

These record production levels were achieved despite a temporary, yet serious, dislocation of the primary feedstock supply system at the Hazira petrochemicals complex. Reliance's financial performance has to be viewed in the context that it has been achieved, after accounting for additional operating costs of Rs. 141 crores (\$ 33 million) incurred as a result of this accident.

As a measure of conservatism, Reliance's claims in respect of this accident have not been accounted for against these additional costs in the financial results. The company's declared profits would have been higher, had it not adopted this conservative accounting policy.

Reliance's strong financial performance in 1998-99 has to be also seen in the context of the historically low global petrochemical prices, pressure on petrochemicals margins for all global producers, and the current difficult environment for the Indian economy and industry in particular.

Reliance is one of the few petrochemicals companies in the world to have reported strong growth in this challenging environment.

Excess industrial capacity creation in many countries, without adequate domestic demand, has led to distortions in the global trading environment. The problem has been compounded by the 'zero effective cost of capital' factored into product pricing decisions in such countries.

With increased globalisation, factors such as the above placed great pressure on product selling prices in the year 1998-99. Fortunately, demand for petrochemicals products in India continued to be robust.

Most of Reliance's products are either essential raw materials, or important intermediates, for products of day to day consumption. During the year, despite the overall sluggishness in investment and industrial growth, consumer demand for basic goods and services was satisfactory. This, together with the continuing substitution effect, contributed to sustained growth in demand for Reliance's products.

1999-2000 First quarter performance

I am pleased to inform you that Reliance is faring well in the current quarter. Reliance will declare its financial results for the first quarter on July 8, 1999.

Restructuring of Indian Industry

Industry restructuring and consolidation are inevitable consequences of the need to respond to a changing world, and the relentless demand put on companies around the world to improve efficiency.

In my address to you last year, I spoke about the prospects for restructuring and consolidation of Indian industry. Reliance expressed its interest in participating in the process of industry restructuring and consolidation in a way that strengthens its market leadership, enhances its competitive position, and also results in overall maximization of shareholder value.

In pursuance of this strategy, Reliance has acquired control of over 65,000 tonnes of polyester capacity. These capacities are located in the states of Uttar Pradesh and Orissa.

This has enabled Reliance to increase market share, diversify its manufacturing base, and further enhance its overall integration.

Reliance will continue to identify value creating acquisition opportunities in its businesses, on a global basis. Achieving increased business competitiveness, with enhancement of shareholder value, will be the cornerstone of Reliance's acquisitions strategy.

Jamnagar Petrochemicals Complex

As you are aware, Reliance is implementing a Rs. 5,500 crores (US\$ 1.3 billion) petrochemicals project at Jamnagar. **This petrochemicals complex will consist of the world's largest production facilities for 1.4 million tonnes per annum of Paraxylene and 600,000 tonnes per annum of Polypropylene.**

The PX facility will help Reliance achieve a higher degree of vertical integration in its polyester business. The PP facility will cater to the strong demand growth in polymers.

Commissioning of the Jamnagar petrochemicals complex has commenced, and will be completed well ahead of schedule, in the coming months.

Polypropylene production facility of 4 lakh tonnes has already been commissioned.

Upon completion of the Jamnagar petrochemicals complex, Reliance's total production capacity will increase 50%, from 6 million tonnes per annum, to over 9 million tonnes per annum. This will also firmly establish Reliance among the top producers in the world, for both PX and PP.

Reliance Petroleum

A large number of shareholders in RIL also hold shares in RPL.

RPL's highly complex and most modern refinery is the largest grassroots refinery in the world. You will be pleased to know that this refinery will enjoy one of the lowest cost positions in the world.

Phase-wise commissioning of Reliance Petroleum's (RPL) 27 million tonne grassroots refinery is currently under way. It is a matter of great pride that RPL's refinery, will be commissioned well ahead of schedule in the coming months during the current year. This fast track implementation in a world record time frame was achieved despite a cyclone in Jamnagar. This is a result of the round the clock efforts put in by our dedicated employees and contractors over the past few years.

I have full confidence that RPL's experienced and well-trained refinery professionals will ensure a safe and efficient start-up of this most modern refinery. On your behalf, I would like to thank and congratulate the RPL project team on this unique accomplishment.

RPL's unique strengths will enable it to earn better margins in an increasingly competitive industry. It is expected that RPL will achieve estimated sales of Rs. 20,000 crores at current prices in its first full year of operations.

RPL has entered into a ten year agreement with Indian Oil Corporation for the marketing of controlled products, both, during the transition period (upto dismantling of the Administered Pricing Mechanism), and the post-transition period (after dismantling of APM). Similar agreements are expected to be signed shortly with HPCL and BPCL.

During the transition period, Indian Oil will be marketing 50% of RPL's production of controlled products. In the post-transition period, 52% of these products will be marketed by IOC, and the balance through a joint venture to be formed between IOC and RPL, subject to necessary approvals.

Commissioning of the refinery marks the completion of Reliance's presence across the entire vertical integration chain - from oil & gas to textiles. **The Reliance group's sole major feedstock will be crude oil.** For RIL, availability of naphtha and other inputs from RPL will help achieve feedstock security.

Capital Allocation

The economic reforms initiated in 1991 commenced the integration of the Indian economy with the global economy. A new era of intense global competition was unleashed on Indian industry. Reliance has demonstrated consistent successful performance in this post reforms era.

Since 1991,

- Reliance's **total income** has moved from Rs. 2,106 crores to Rs. 15,161 crores in 1999 - growth of 620% - a 7 fold increase;
- its **total assets** have increased from Rs. 2,712 crores to Rs. 28,156 crores in 1999 - growth of 940% - a 10 fold increase,
- its **total production** has increased from 0.45 million tonnes to 7.06 million tonnes in 1999 - growth of 1469% - a 16 fold increase;
- its **net profits** in turn have increased from Rs. 126 crores to Rs. 1,704 crores in 1999 - growth of 1250% - a 14 fold increase; and
- its **networth** has increased from Rs. 1,154 crores to Rs. 12,369 crores - growth of 972% - a 10 fold increase.

The capacity expansion programme at Hazira and Jamnagar, undertaken in the last few years, has placed Reliance in the ranks of the top 10 producers globally, in nearly all its major products. Reliance has emerged as a world-class, world-scale, market-leader by building on its globally competitive positions.

The significant strengths developed over these past few years are expected to help Reliance's businesses generate substantial cash flows. In my communication to you in the latest annual report, I have stated that Reliance is committed to deployment of these cash flows within a conservative financial framework, and in the overall interests of all stakeholders.

Today, I would like to spell out some of the specifics of Reliance's capital allocation framework, to enable investors to get a better understanding of Reliance's future growth strategies.

Reliance's Capital Allocation Framework

In the past 20 years of its growth, Reliance has endeavoured to rank among global players, not just in terms of size, but also competitiveness, and has put in place world-scale production facilities. **This step was a pre-requisite, to create a lasting foundation for achieving long term profit growth. This strategy necessarily required capital expenditure to be incurred on a substantial scale.**

Several of our large investors have urged us to implement growth plans, so as to ensure that Reliance further enhances its market leadership and competitive position. **Naturally, certain assets need to be created in our core businesses, on an ongoing basis, to enhance competitiveness.**

Reliance will ensure that profit growth and capital productivity receive due emphasis.

Reliance is committed to enhancing shareholder value through the implementation of a profit oriented growth strategy that:

- enables it to achieve significantly higher rates of return;
- requires a level of investment that is significantly lower than capacity replacement costs;
- strengthens its overall cost and competitive positions;
- enhances its overall market leadership; and
- improves its product mix, customer satisfaction and customer reach

Reliance will allocate upto 50% of its internal accruals over the next three years, to implement this profit oriented growth strategy.

Other avenues for capital allocation

To further enhance shareholder value, Reliance will also pursue other avenues for deployment of its cash flows such as:

- **strategic acquisition opportunities**
- **debt reduction**
- **financially attractive investments in affiliates.** The returns from such investments, and their true valuation, will be reflected in Reliance's financial statements through the proposed consolidation of accounts.
- **enhanced distributions to shareholders,** through appropriate dividend and stock buyback policies. Implementation of Reliance's stock buyback programme will depend upon Indian guidelines being in conformity with international norms.

Above all, Reliance is committed to profit growth and capital productivity within a conservative financial framework to maximize shareholder returns.

Financial Prudence

Reliance endeavours to maintain its conservative financial profile despite the capital-intensive nature of its businesses. Reliance aims at maintaining its ratings at the higher end of local currency ratings and foreign currency ratings within the constraints of the sovereign ceiling.

Reduction of debt levels will be an important use of Reliance's cash flows in the next couple of years. Reliance also expects to achieve significant savings in debt servicing costs through reduction of debt levels.

Reliance aims to optimise its WACC (weighted average cost of capital) to levels of its international peer group, to further enhance competitiveness.

Capital Efficiency

Reliance strives to achieve increased returns on the existing capital employed through:

- a determined effort at cost reduction that leads to a meaningful improvement in total cost positions; and
- achieving higher levels of operational efficiency, with a relentless pursuit of enhanced productivity targets.

Reliance will endeavour to achieve its capital efficiency targets, of generating a 20% compounded growth in earnings per share, and a return of 20% on shareholders' funds, over the next five years. Reliance is confident that the quest of these objectives will ensure sustainable returns with a healthy margin over its cost of capital through business cycles.

Growth opportunities

Reliance's current expansion and de-bottlenecking programs will entail an outlay of about Rs. 1,000 crores per year over the next three years. This is well below the level of 50% of expected internal cash accruals, specified in the capital allocation framework.

Reliance expects to accomplish these expansions at significantly lower costs - around 50% of the current replacement cost of comparable assets.

Reliance expects to achieve substantial cost advantages from the creation of these facilities, leading to higher profitability. Its existing cost positions, already globally competitive, will further improve. These expansions will also help Reliance enhance market leadership, and meet customer needs in a more efficient manner, while leveraging on its existing competitive advantages.

Since these expansions require marginal levels of investment in relation to the costs of setting up a greenfield capacity, lower capital intensity and substantially higher returns will be ensured. **Reliance expects these investments to generate**

rates of return significantly higher than its cost of capital, through business cycles. These expansion opportunities are expected to generate returns in excess of 25%.

These expansions are expected to take Reliance's total production capacity up from 9 million tonnes per annum, post Jamnagar, to over 10 million tonnes per annum. **This increase in capacity is expected to generate significantly higher returns.**

Polyester Business

In the past 20 years, Reliance has built and acquired 6 lakh tones of polyester capacity. **Reliance is currently the fifth largest PSF producer and sixth largest PFY producer in the world.**

The polyester sector presents attractive growth opportunities. Domestic demand growth for Reliance's products remains robust. Polyester demand has grown at a compounded rate of 15% to 20% over the last 15 years. Demand for polyester yarn is growing at around 100,000 tonnes per annum.

Indian per capita consumption of polyester, one of the lowest in the world, is still around one third that of China.

To participate in the polyester sector growth and to enhance its market leadership as well as its overall competitive position, Reliance intends to double its total polyester capacity, in phases over the next three years.

Reliance aims to be the lowest cost, and the most competitive, polyester producer in the world. Reliance also aims to be amongst the top 3 polyester producers in the world.

In order to meet its own demand for polyester raw materials, and maintain its market position, Reliance intends to increase the capacity of its existing PTA plants.

Polymers Business

The polymers business also presents highly profitable growth opportunities. Domestic polymer consumption has been increasing at a compounded rate of 20% over the last 20 years. Demand growth prospects are robust.

To participate in this growth Reliance intends to de-bottleneck its existing multi-feed naphtha cracker, the world's largest, from 7.5 lakhs tonnes to nearly one million tonnes of ethylene per annum.

This will enable Reliance to sustain its market leadership and competitive position in the polymers business.

Reliance will also undertake de-bottlenecking to achieve higher production of polymers, such as Polyethylene and other cracker downstream products.

Exports

Reliance's export revenues, including deemed exports, of Rs. 685 crores (\$ 161 million) placed it among the top five manufacturer-exporters from India.

Reliance's export revenues are expected to increase further to around Rs. 2,000 crores (\$ 500 million) over the next few years, upon the commissioning of the Jamnagar Petrochemicals Complex. **Reliance is likely to attain the position of the largest manufacturer - exporter from India.** Even at these levels, Reliance's export revenues will constitute only around 10-15% of its total income.

World-class quality and the focus on customer satisfaction enable Reliance's products to attain global acceptance. The continuous benchmarking in the domestic market, to compete against imported products, has helped Reliance in carving out a niche in the global arena.

Year 2000 (Y2K)

As most of you would be aware, governments, institutions and companies all over the globe face a new all pervasive challenge represented by the Year 2000 (Y2K) problem.

This problem, simply put, concerns the inability of computerised information, process control and other systems to properly recognise and process date sensitive information beyond December 31, 1999.

Reliance's Year 2000 Compliance Programme is devised to commit adequate resources to assess risk, and take corrective actions, wherever required, to ensure:

- There is no risk, of injury to any person, environmental pollution, or damage to plant equipment, owing to failure of automation and control systems employed in Reliance's plants.
- There is no disruption of manufacturing activities and operations in the plants, and there is no discontinuity of product despatch and distribution.
- There is no disruption, or inaccuracy, in the financial, accounting and other transactions undertaken by the company in the course of business activities.
- The interests of all stakeholders in the company are protected at all times.

As a result of assessments, modifications, upgrades, or replacements - planned, ongoing or already completed, we believe the Year 2000 issue as it relates to the Company's own date dependent systems will not pose any significant problems for the Company's business, processes and operations. **It is anticipated that all mission critical systems will be certified Year 2000 compliant by July 1999.**

Corporate Ethics Initiative

Our success will ultimately be determined by what people think of us.

Reliance will always show the utmost respect for all its people as well those who deal with it, treating them fairly in all matters.

Reliance recently set in place a policy framework for ethical and value based business conduct.

Policy documents published during the year include:

- Our Values and Commitments,
- Our Code of Ethics,
- Our Business Policies,
- The Insider Trading Policy
- A detailed programme for Ethics Management.

Reliance expects all employees, and all its businesses, to conduct themselves according to the highest ethical standards enshrined in these documents.

Reliance has a realistic commitment to upholding these values. Reliance is one company with one mission, but it has different businesses and a huge and diverse workforce.

Reliance has laid down firm ethical values, and appropriate business policies. Within that framework, Reliance gives its people freedom to respond to competitive pressures in the marketplace, in their drive to accomplish Reliance's purpose for existing as a company.

Reliance's concern for the environment

Reliance recognizes that the relationship between society and business is undergoing a fundamental metamorphosis. In recognition, Reliance's relentless drive for growth, profitability and competitiveness will be matched by equally strong commitments to corporate governance, and concern for the environment.

Reliance is sure that more responsible behavior will enhance the perception about its financial and business performance. Reliance has always pioneered responsible corporate thinking in Indian industry. It has paid attention to the well being of the societies in which it operates. Reliance continues to identify social trends, behave constructively, be more accountable, and work with local communities to promote growth and sustainable development.

Reliance's goal is to help its neighborhoods and communities towards greater prosperity and stability, with a focus on greater accountability and community involvement.

Quality of people

Reliance's strong and world-class team of about 18,000 skilled, highly qualified people is its key competitive edge. The sincere commitment and world-class management skills of Reliance's people are the key reason for its success.

I would like to congratulate the Reliance team on behalf of all shareholders for achieving consistent successful performance and attaining global competitiveness.

Reliance is a young organization - the average age of our team is only around 36 years. Innovative thinking and a spirit of entrepreneurship are key attributes of the youthful Reliance team.

Reliance believes that its growth is dependent on the growth of its people. Reliance recognizes that quality of its human resources determines its success as an organization and that development of its people is a priority.

Human resources, management and leadership development initiatives are undertaken with a view to enhance Reliance's people and management strengths. Reliance endeavours to provide opportunities for continuous training and learning.

Reliance rewards its team through a competitive compensation structure, and with opportunities for unparalleled personal and professional growth for all team members.

Homage

Before I conclude, I would like to pay, on my own behalf, and on behalf of all of you, our homage to the jawans and officers of our armed forces.

Several of them have laid down their lives in the defence of our motherland.

Several young members of our army and airforce have been disabled in action.

All of them have shown exemplary courage in facing the enemy in the Kargil sector.

I would like to announce that Reliance will contribute 1 crore rupees towards relief, rehabilitation and other humanitarian assistance for them. Also, all Reliance employees will individually contribute their one-day's salary towards the same cause, taking the total contribution to 2 crore rupees.

I appeal to all our business associates to generously help and demonstrate that the entire nation stands behind our defence forces in this moment of trial.

Acknowledgements

Let me now thank all our investors, lenders, suppliers and customers of Reliance.

I would also like to thank all employees of Reliance, and thousands of construction workers, for their commitment. I thank all my colleagues on the Board for their continued support and encouragement.

Thank you once again, my dear shareholders.

June 24, 1999
Mumbai.

Dhirubhai H. Ambani
Chairman