

Chairman's Speech – AGM – 28th July 2009

My dear fellow Reliance Natural Resources shareowners,

A warm welcome to *each* one of you to the 9th Annual General Meeting of our company.

It has been a little over three years since we first came together to write a new chapter in our company's growth and evolution.

In this time, our shareowner family has grown to over 26 lakh members, adding over 6 lakh new members since the demerger in 2005.

We are now the second largest shareholder family in the country, after our group company Reliance Power, which has a shareholder base of 37 lakh members, by far the largest in India.

PERFORMANCE REVIEW

The Company's accounts for the year ended March 31, 2009, along with the Directors' report, letter to shareowners and Management Discussion and Analysis have been circulated to you.

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

The gas supply contract with Reliance Industries Ltd (RIL) is our company's primary asset and contributes most of its value, affecting the very basis for its creation.

Accordingly, I propose today to comment extensively on recent developments in this matter, covering four main areas:

1. RIL's dishonorable conduct in persistently refusing to honor the gas supply contract.
2. The exorbitant profits RIL is seeking to make at the cost of the power and fertilizer sectors in the country
3. The apparently biased and partisan role of the Petroleum Ministry, and
4. The reality of the gas demand-supply scenario in India and its implications on long term pricing

The Founder's Dream

At the outset, I am happy to note that Reliance Industries Limited (RIL), a company founded by my father the Late Shri Dhirubhai Ambani, with which I was associated for nearly 25 years and which is still very close to my heart, has started the production of natural gas from KG Basin recently – although 7 years after discovery, and with huge time and cost overruns.

Nonetheless, my heartiest congratulations to the RIL team for achieving this marvelous feat, and realizing one of Dhirubhai's life-long dreams.

This significant domestic gas production in India will broad-base our energy basket, and contribute to our long-term energy security.

GAS SUPPLY FROM RIL

Last year, when we met at the AGM, I shared with you the history behind the creation of RNRL.

To recap briefly, our company was created through a demerger of RIL, and was to be responsible for the supply and transportation of gas from the various gas fields of RIL to our Group companies for power and other projects.

This arrangement was approved, by all of you, as shareholders of RIL.

To ensure that the benefits of the gas business were rightfully enjoyed by the over 2 million shareholders of RIL, they were all allotted shares -- free-of-cost -- in the new company, Reliance Natural Resources.

Despite the binding commercial agreement that exists between RIL and RNRL for the supply of gas, it is unfortunate that RIL has tried every trick in the book – and apparently several outside the book -- to back out of its solemn, legal and contractual obligations.

Following the failure of our every attempt at talks and conciliation for nearly 18 months, we had no option but to approach the Bombay High Court to ensure that RIL fulfills its gas supply obligations to our company.

I am happy to report that the Hon'ble Bombay High Court has delivered 3 judgments in the past two years on this matter, and in each one of them, our stand has been vindicated, and RIL's claims summarily dismissed.

Most recently, the division bench of Bombay High Court in its judgment of 15th June 2009, has categorically ruled that:

1. The RNRL application is maintainable, meaning our claims against RIL are totally justified.
2. The quantity of gas to be supplied by RIL to RNRL is 28 million cubic meters (plus another 12 in case RIL does not supply gas to NTPC), and shall be binding.
3. The sale price of gas shall be USD 2.34 per mmbtu.
4. The tenure of gas supply shall be for the full 17 years.
5. Parties to enter into a bankable gas supply agreement within 30 days.
6. The Corporate Restructuring MOU between the two groups is upheld, benefiting over 15 million shareholders

I would specially like to mention here that the Bombay High Court gave this verdict AFTER hearing the Government of India for over 6 months on the interpretation of its Production Sharing Contract (PSC) with RIL.

Clearly, the hon'ble High Court's order is a body blow to RIL.

In the last five weeks, there has been a spate of motivated and misleading reports, even official statements from certain quarters, not to mention an unnecessary legal intervention by the Petroleum Ministry in the hon'ble Supreme Court - to sow the seeds of confusion and take away from the clear and comprehensive nature of the Bombay High Court verdict.

Outraged by this vicious and false propaganda, several of you have approached me to urgently clarify these issues at the AGM today and dispel the lies, myths and untruths being propagated by vested interests.

Let me therefore directly deal with your questions, concerns and doubts on this very critical matter affecting the very foundation of your company.

Question : The Petroleum Ministry says that the two brothers are fighting over something that doesn't belong to them? That this is a private battle over a sovereign national asset? That the KG basin gas belongs to the government and people of India?

Answer: I am sorry to say that facts are deliberately being twisted to suggest that the corporate agreement between RIL and RNRL amounts to a private division of sovereign national assets.

This bogey of sovereign ownership is being raised with the sole purpose of attempting to bail out RIL and help them renege on their contractual commitments.

The fact is, we are not claiming any rights to the ownership of the KG basin gas fields.

We are claiming gas *only* from RIL's *lawful share* or *its rightful entitlement* of production of gas under the PSC.

More importantly, our claim is entirely in line with the Government's own stand on the floor of Parliament, not once or twice, but on at least 15 different occasions in the past 3 years.

To quote just one instance, on April 22, 2008, in a specific reference to the RIL-RNRL corporate dispute, the government told Parliament in a written answer, and I quote:

"As per the PSC, the contractor – that is, RIL -- is entitled to sell its participating share of gas in cost petroleum and profit petroleum."

Simply put, if RIL is entitled to sell its share of gas, as provided for in the PSC and as confirmed by the government in Parliament on so many occasions, where does the question then arise of our corporate agreement carving up national assets or property?

Clearly, this bogey is being raised by those seeking to help RIL at any cost, for reasons that no one can fathom...

Q: Why has the Petroleum Ministry's role suddenly escalated in the RIL-RNRL gas dispute?

I am as surprised by this escalation as all of you and most other observers. Even as recently as 2nd July 2009, two weeks after the Bombay High court had delivered its judgment, the government told Parliament in a written answer that the court case between RIL and RNRL is, and I quote:

"a commercial matter between two companies."

The Petroleum Ministry has publicly sought to justify its escalated intervention on the ground that it didn't know the terms of the RIL-RNRL gas arrangement till recently when they were revealed during the course of the Mumbai High Court hearings.

I'm afraid this stand is contrary to facts on record.

The Petroleum Ministry has been in possession of all relevant details of the RIL-RNRL gas supply agreement for at least three years, that is, since 2006, if not earlier.

In April 2006, RIL provided all details of the gas supply arrangements to the Petroleum Ministry –This is a matter of official record.

In June 2006, three years before the Mumbai high court delivered its judgment, RNRL submitted full details of its gas supply agreement with RIL to the Petroleum Ministry - This again is a matter of official record.

The Bombay High Court Order of June 2007 outlined all terms of the gas supply agreement, including the initial supply of committed quantities of gas, and the sharing of Option gas.

Way back in September 2007, when the Empowered Group of Ministers (herein after referred to as Cabinet sub-group for convenience) met, it took note of the full details of the gas supply agreement between RIL and RNRL. The Union Minister for Petroleum was an integral part of the Cabinet sub-group and represented the Petroleum Ministry's point of view.

The Cabinet sub-group actually went further, and recognizing the rights of the parties, categorically recorded that its decisions were “without prejudice to the NTPC vs RIL & RNRL vs RIL cases which are sub-judice.”

This has been reiterated, reinforced and restated twice in the Cabinet sub-group meetings, in October 2008, and January 2009, as per the minutes filed by the Government in the Bombay High Court.

In other words, the Cabinet sub-group has consistently and rightly stated that its decisions would not affect the rights of RNRL & NTPC against RIL, and the Court's decisions would be binding.

Through this entire period, the Petroleum Ministry was a party to, and concurred with, this decision, and did not make any attempt to question the corporate restructuring agreement between RIL and RNRL.

It is only now, after the adverse verdict of the Mumbai High Court against RIL, that the Petroleum Ministry has suddenly decided to intervene in this purely corporate dispute.

Apparently, the Petroleum ministry has used its discretion and not even thought it fit to take the approval, I am informed, of the Cabinet.

This, remember, is a matter which involves two of India's largest business houses, over 15 million shareholders, global implications for the energy business, and three unambiguous judgments of the Mumbai High Court.

Yet, the Petroleum Ministry has unilaterally gone ahead and taken a stand which runs contrary to that of the Cabinet sub-group – apparently without even consulting it – even though that Group represented the broader, collective

wisdom of several other ministers, including inter alia the ministers of finance, law, power and fertilizers!

At least on the face of it, quite unusual and puzzling!

There are some other curious aspects of the manner in which this case is apparently being handled.

I have been informed that the Ministry of Law and Justice has issued written instructions to all Ministries, by a Circular dated 3.11.2008, that in all sensitive matters, "written submissions/affidavits should be filed in the Supreme Court only after the same are vetted/approved by the Department of Legal Affairs, Ministry of Law and Justice."

Based on all public comments of the Petroleum Ministry, it clearly considers this to be a sensitive matter.

Nonetheless, it has reportedly chosen not to take the requisite approval of the Ministry of Law and Justice.

Maybe, technically, it has the powers to go ahead on its own, but given the several inter-ministerial deliberations that had already taken place on the subject and the substantial issues involved, would it not have been more appropriate and transparent to at least consult the Law Ministry?

Quite the contrary, it appears!

According to media reports, the Petroleum Ministry, in an unprecedented step, reportedly wrote to the Law Ministry earlier this month, and simply informed them that copies of SLPs/affidavits would be made available by the Advocates of the Petroleum Ministry, and the same should be filed in the Supreme Court!

Not just that, the Petroleum Ministry further instructed the Law Ministry that no counsel should be instructed to appear in the matter without their prior approval, as the matter was "sensitive."

Also, according to further media reports today, the senior Government law official who represented the Petroleum Ministry before the Bombay High Court informed it that:

- Submissions should be confined to the grievances as an aggrieved party arising out of the judgment of the Bombay High Court.
- The challenge to the MOU should only be in to the gas sale agreement and not to other matters
- The final SLP was not shown to him!

Clearly, his advice was not followed!

Finally, it has been brought to my attention that one of the Senior Advocates of the Petroleum Ministry, who I have no doubt is a most accomplished person with the highest degree of legal expertise, is the same person who sent a formal complaint to SEBI in October 2007 against the Reliance Power IPO and me personally – it's a different matter that SEBI and the hon'ble Supreme Court allowed the IPO to proceed, over-ruling all complaints.

Media reports further suggest that some officials in the Petroleum Ministry had observed that the services of this learned Senior Advocate should not be considered “due to inadequate understanding and presentation of cases before the Hon'ble High Court...” – but this was over-ruled and he still represents the Petroleum Ministry!

Maybe all just an accident? Or a coincidence?.....

I leave it to your judgment!

It doesn't stop here...it actually gets better....sorry, worse!

Frankly, if the Petroleum ministry is genuinely aggrieved – and if they honestly believe that RIL has violated the terms of the PSC by allegedly trying to divide national property – why don't they exercise their powers and terminate the PSC, and take back the ownership of the gas fields from RIL, when the provisions exist for them to do so?

Since the corporate agreements between RIL and RNRL have been known to them for three years, what have they been waiting for?

Why are they belatedly rushing to the Supreme Court, challenging commercial contracts between two corporate entities?

Q: Why is the Petroleum Ministry's stance different now than it was in the Bombay High Court?

A: I wish I knew.... Before the Bombay High Court verdict, the ministry did not ask for cancellation or annulment of the MOU!

In fact, during the High Court hearing, the Petroleum Ministry made certain submissions regarding its views on gas supply, and its interpretation of the PSC, which ran completely contrary to their earlier stated positions on the issue.

However, when our counsel requested the Court's permission to cross-examine the ministry's officials, the latter quickly withdrew all their affidavits....

Again, on the face of it, appears quite unusual ...and puzzling!

Q: Could the Petroleum Ministry then be intervening because the high court judgment affects the government's interests adversely?

A: Not at all. The fact is that the Bombay high court has delivered not one but three judgments on the issue, each one of which, including the most recent one delivered on June 15, fully protects the government's Interests and revenues.

This is also completely consistent with our own legal position.

What is being deliberately distorted is that, as per the PSC, there is a clear distinction between the sale price of gas, which is to be fixed by the Contractor (RIL), and the price to be adopted for determining the government's royalty and share of production, normally referred to as valuation, which is approved by the Government.

This is not our interpretation of some very complex legal clauses – this is the view of the government itself, consistently affirmed on the floor of Parliament!

On 30 August 2007, the Government told Parliament in a written answer and I quote:

“As per the PSC signed by the government under the New Exploration Licensing Policy (NELP), the operators have the freedom to market the gas in the domestic market on an arms length basis. The government does not fix price of gas. The role of the government is to approve the valuation of gas for the purpose of determining government take.”

Again, the government told Parliament on 27th Nov 2007 that “[it] does not fix the price of gas.”

The Bombay High Court too has upheld this legal position, and said that as long as the Government gets its royalty and share of production on the basis of the Government approved price for valuation, they have no concern with the sale price at which the Contractor (RIL) sells the gas.

The government's approved gas price is thus not a sale price – it is a price the government has fixed for valuing its own share of profit petroleum.

To illustrate: The situation is similar to that of stamp duty on property transactions.

Just like stamp duty is based on the government's reference rate and has no relationship to the actual sale or purchase price, the government-approved price of gas is a reference rate that is used to calculate the government's share of profit petroleum, but does not become the sale price.

It is just like when you buy a flat at a price of Rs. 10 lakh, the Registrar of Properties may value the flat at Rs 20 lakh, and charge stamp duty on Rs 20 lakh.

But the Registrar does not go on to say that you must pay Rs 20 lakh to the seller – and the Registrar certainly does not go and file a case in the Supreme Court to make you pay Rs 20 lakh!

But this is exactly what the Petroleum Ministry's stand means!

It has contended before the Supreme Court that it will not only value the gas, but also fix the gas sale price that RNRL must pay RIL, even though in Parliament it has repeatedly said that

“Government does not fix the price of gas!”

For the record, I want to emphasize that Government does not stand to lose a single rupee, even if RIL sells at a lower than the approved valuation price to any party.

And here is the most mystifying part, something very few people are aware of.

Going by the Petroleum Ministry's determined opposition to the Bombay High Court's judgment, it will be fair to assume that this is their way of protecting the financial interests of the government.

Appears far from it... Very far indeed....!!

As per the terms of the PSC, if RIL gets a higher sale price from us based on the price the Petroleum Ministry wants to fix for the first few years, 99% of all revenues and profits will go to RIL, and only a measly 1% will accrue to the Government!

Of the initial revenue of Rs 50,000 crore, RIL gets almost all, i.e. Rs 49,500 crore vs. the government's Rs 500 crore.

Makes you wonder why the Petroleum Ministry is pushing so hard for higher gas prices, when 99% gains will go to RIL!

The irony is that even RIL's own international partner in the KG D-6, Niko Resources, has written to the Government in the past that as per the PSC, the Petroleum Ministry has no powers to fix the sale price!

Other global petroleum industry majors, including BP and Shell, have made a similar formal submission to the Indian government, arguing that any attempt to fix the price would violate the market freedom provided under the PSC.

RIL had itself opposed this position earlier, but now, for obvious reasons, it is finding great virtue in toeing the Petroleum Ministry's line!

Q: If all this is true, then, why is the Petroleum Ministry behaving in this partisan manner?

A: What people say is that RIL is apparently firing from the shoulders of the Petroleum Ministry to renege on its contractual commitments to NTPC and RNRL.

It is worth emphasizing that we are not the sole victims of RIL's machinations.

There is also government-owned NTPC, India's largest power utility and a navaratna.

People say there is a history to the RIL-RNRL dispute – the corporate restructuring, and so on.

But so far as the RIL-NTPC dispute is concerned, obviously there is no ego, no emotions, no family, and no corporate restructuring -- it is plain and simple corporate greed.

This is a unique case in the history of independent India where the actions of one arm of the government, that is, the Ministry of Petroleum, are ostensibly harming the interests of another, Ministry of Power's jewel in the crown NTPC – all for sake of a monopolistic gas producer, RIL.

NTPC has been fighting RIL for supply of gas from KG-D6 fields.

Initially, RIL had willingly and voluntarily quoted to supply gas to NTPC at USD 2.34 per unit, in a global competitive bid, and the dispute was only as regards certain terms and conditions of the agreement.

Now, based on the Petroleum Ministry's revised stand, RIL has told the Courts that it cannot supply gas at the earlier contracted price of USD 2.34 even to NTPC!

Like any other unbiased observer of this unfolding crisis of credibility, I am deeply dismayed by this apparently partisan and biased approach of the Petroleum Ministry in favour of RIL, which is hurting not just RNRL, but also the government-owned NTPC.

NTPC's case against RIL has been going on for nearly 3 years in the Bombay high court, and if RIL's current delaying tactics are allowed to persist, it will continue for much longer.

Q: Has the Petroleum Ministry always behaved like this?

A: Definitely not.

It is evident that the apparently biased stance commenced in 2006, coinciding with changes in the ministry.

I am not trying to cast any aspersions on the integrity or motives of individuals here – I am sure they have good reasons for their stance.

I am sure all private companies in India wish that if they made commercial decisions they wanted to get out of, they too had a savior to help bail them out – as is apparently the case for RIL!

Q: Will this intervention by the Petroleum Ministry have any long-term implications for business environment in India?

A: The Petroleum Ministry's stance is, in effect, that it will solely decide:

- who should sell gas
- to whom,
- at what price
- and in what quantity,
- and when

-without any heed to commercial considerations or contractual provisions!

In complete reversal to the entire direction of economic reforms, being implemented by our respected Prime Minister, Dr. Manmohan Singh, the Petroleum Ministry is regrettably pursuing a different path, seeking perhaps a return to the command-control elements of the dismantled 'license-permit-raj'!

Through its intervention, the Ministry is aiming to re-write the PSC after nearly 10 years, and also seeking to cancel a contract between third party corporate entities!

What then is the sanctity of a contract, which is the fundamental cornerstone of any law-abiding, market-driven economy?

And will this not set a precedent, allowing any Ministry to alter any contracts in the future at will?

Clearly, the Petroleum Ministry's unfortunate intervention in a corporate commercial dispute in this manner, if permitted to continue, will erode investor confidence, and thwart the government's efforts to attract investments into India.

This will also naturally have adverse policy implications for private investments in all natural resources, which are subject to similar considerations.

Q: What about RIL? Why is it not honouring its commitments?

A: I am deeply shocked and saddened by RIL's conduct in this matter, and its blatant refusal to honour a bonafide commercial agreement.

Let's remind ourselves that RIL is no ordinary company - it is India's largest private sector company – a proud creation of India's greatest entrepreneur, my late father, Shri Dhirubhai Ambani.

What it does, the signals it sends out, have relevance not just for its own business partners, but for India at large.

And what RIL has been communicating in the last few years is that it has no regard for its own solemn word, no time for values, no respect for the sanctity of contracts, and, most of all, no morality in its headlong pursuit of corporate greed.

The most important word for Shri Dhirubhai Ambani was "TRUST" and that word has, unfortunately, gone missing.

RIL has shown no inclination, desire or urgency to comply with the judgments of the Bombay High Court, even though none of them has been stayed by a higher court.

Indeed, the actions of RIL have resulted in existing customers with stranded assets filing a spate of unnecessary petitions in the Supreme Court, even though we have made it clear that there will be no disruption of gas supply to any existing or priority sector user, if gas is supplied to RNRL in the interim as prayed for by us in the Supreme Court.

Q: But why should RIL supply gas to RNRL at a preferential price lower than the price of USD 4.20 per mmbtu based on a private family settlement, when others are paying that higher price?

A: There are no preferential or low prices.

The price of US USD 2.34 was not decided by two brothers on the dinner table. Nor is it part of some private family arrangement.

The price of USD 2.34 was approved by RIL's Board of Directors, nearly five years ago, and has been duly recorded in the commercial agreements signed by RIL as a properly constituted legal corporate entity, with all relevant authorizations.

All these facts are recorded in the recent order of the Bombay high Court.

The proposed gas supply arrangements were also part of the publicly disclosed and widely circulated demerger scheme:

- approved by RIL's Board,
- approved by over 2 million shareholders of RIL,
- approved by the Bombay High Court,
- after receiving the Central Government's No-Objection Certificate.

In other words, everybody, including the Petroleum Ministry had an opportunity to raise objections against the de-merger scheme, but they didn't do so.

Secondly, ours is not some arbitrary price that came from nowhere.

This price was discovered in an international competitive bid floated by the government-owned NTPC in 2004, in which RIL voluntarily and unequivocally agreed to supply gas at USD 2.34; a price that was authorized by the RIL Board.

RNRL's gas supply agreement with RIL, finalized at the same time as the RIL-NTPC agreement, was based on this competitive arm's length price, discovered through a full-fledged competitive global bid.

Unfortunately, the later price discovery of USD 4.20 by RIL (for valuation purposes) is completely flawed. The formula was never approved by the Petroleum Ministry prior to the orchestrated tender by RIL where participants were invited to bid on a nominated basis.

The formula as constructed is not rational, and does not pass on real benefit to the consumer, even if the crude price was to drop 50% from US\$ 60 to US\$ 30!

Moreover, the price has been decided for only five years, and It is unlikely that any new investments in greenfield power projects would materialize on the basis of a five year contract and, more importantly, on a very high gas price.

NTPC, the largest and most experienced power utility in India, with all its financial strengths has not gone ahead with the construction of 2600-MW Kawas and Gandhar expansion projects as it does not have assured gas supply contract and is finding it unviable to accept gas at a delivered price of nearly USD 7 per mmbtu (including the transportation costs).

Any price for valuation determined for a short-term commitment of 5 years based on needs of plants sitting idle, and desperate for gas at any price, cannot have any relevance for long-term, fixed price, seventeen-year gas supply contracts on take-or-pay basis, for setting up greenfield power and fertilizer projects involving investments of tens of thousands of crores.

Q: But isn't USD 4.2 the right price for domestic gas, given the scarcity of gas in India?

A: This entire concept of scarcity of gas in India is actually a myth -- in the medium to long run.

The gas production in the country is set to double to over 200 million cubic meters of gas per day in the near future, based on further production from RIL's KG-D6 fields alone.

In addition, there will be production from gas reserves already found by various other players like GSPC and ONGC.

Besides, RIL has so far explored only 4 per cent of its total fields in KG-D6.

The balance 96 per cent area is still to be explored, and given past finds, it is reasonable to expect similar huge discoveries of reserves in the future.

In a few years, India will become a gas surplus nation provided contractors are subject to an independent process of assessment and verification which prevents the hoarding, under-reporting or sub-optimal production of gas.

A gas price of USD 4.2 is exorbitant and can in no way be justified.

One must bear in mind that gas prices in the international market have crashed by as much as 80 per cent in the last few months.

Yet, that seems to have made no difference to the Petroleum Ministry's push for even higher prices in India, much to the detriment of power and fertilizer consumers.

The situation seems even more bizarre, if one looks at other markets in the world.

In the Middle East, gas prices are currently ruling at USD 1.5, or just under one-fourth of the delivered price in India.

India now has among the highest short-term gas prices in the world, nearly 30 per cent higher than even in UK and the US, where short term prices are currently hovering around USD 3.5.

In our view, it would be against public interest to price gas in India for any user above USD 1.50.

Natural Gas should in fact be priced substantially lower than USD 2 for all power and fertilizer customers.

Of course, it is strange that in a democratic country like India, we have to pay for a domestic resource like gas in dollars when the end-users of this resource, the millions of power and fertilizer consumers in this country, pay for it in rupees.

The simple fact is that RIL has a short term monopoly, and to perpetuate this monopoly, and earn disproportionate profits at the cost of the people, RIL is spreading misinformation in the public domain to get a higher price for its gas.

It is a huge scandal that at the price of USD 4.20, RIL wants to make super normal profits of over Rs 50,000 crore which will ultimately be paid for by hundreds of millions of end-consumers in the power and fertilizer sector.

People wonder if the Petroleum Ministry realizes that its efforts to make this the uniform price for all users will benefit only one monopolistic supplier, RIL, at the expense of the whole country!

As per analyst reports, the entire KG basin has been declared commercial, when only 4 per cent of it is actually being exploited, thus profiting RIL for many many years to come.

Q: What will be the impact of a gas price of USD 4.2 for the country?

A: The burden of the higher gas prices will eventually be borne by hundreds of millions of power and fertilizer consumers.

The higher gas price demanded by RIL increases the cost of power for consumers by as much as Rs 1 per unit.

The story does not end there. The real price of gas is not USD 4.20, but close to USD 7 per mmbtu, because the delivered price to bulk consumers would include a huge additional component of transportation costs.

At these delivered prices, while some limited stranded power capacities may function, I'm afraid it will not be possible to achieve the Prime Minister's vision of "Power for all by 2012" – and all this, for the sake of enriching one corporate entity, RIL.

I may add that there is a strong case to revisit the issue of transportation costs for KG-D6 gas, probably the highest in the world, by the PNGRB, the pipeline regulator. Presently, these are pegged at a prohibitive USD 1.25, or 30 per cent of the base gas price!

Further, with new tax breaks recently announced, the entire cost of setting up the gas pipeline network has been allowed to be written off in the very first year – a special and unique benefit not given to any other capital intensive sector.

For end users in both power and fertilizers, who ultimately pay for the pipeline network, it is only fair that the benefits of these tax breaks be passed on, and gas transportation costs be brought down to near zero.

I hope the regulators in gas and power sectors such as PNGRB, CERC and SERC, will examine this aspect more carefully.

Ironically, these transportation costs do not even go to RIL and its millions of shareowners, but to a company called Reliance Gas Transportation and Infrastructure Limited (RGTIL).

In 2005, when I was the vice-chairman and managing director of RIL, RGTIL was a 100 per cent subsidiary of RIL. But soon after I resigned, it ceased to be a subsidiary; having been sold to the promoters of RIL for a princely sum of Rs 5 lakh and turned into a privately held company.

As many of you are shareholders of RIL as well, just like me, we should all note that this company is no longer owned by RIL, but by RIL's promoters.

Q: Won't RIL suffer huge losses at a low gas price of USD 2.34?

A: The production cost of KG Basin gas is only Rs 43 or 89 cents, as submitted by RIL to the Petroleum Ministry. Therefore, at a price of USD 2.34 applicable to NTPC and our company, RIL makes a profit of over 100 per cent on its cost of production, which translates into over Rs 30,000 crore just from NTPC and us over the life time of our contracts.

Accordingly, there is no question of RIL suffering a loss – it will still make good profits at USD 2.34 as confirmed by RIL's counsel in the Bombay high court. The problem is it wants to make super normal profits – talk of greed vs. need!

I would also like to take this opportunity to comment on the capital expenditure claimed to be incurred by RIL on the KG-D6 fields.

Based on the way the PSC is structured, all of us who buy gas from RIL are effectively paying for the entire capital expenditure.

This is because as per the PSC, RIL is entitled to first recover its entire capital expenditure from the revenues from sale of gas, before even the Government gets any meaningful share.

The more RIL claims to have spent on capital expenditure:

- the more we have to pay for gas,
- the less the Government gets as its share from the revenues
- and the more delayed is the timing when the government gets its revenues.

Clearly, this mechanism embedded in the PSC requires complete transparency and independent validation of the capital expenditure claims of RIL – because all of us, a billion Indians, are paying for it!

It may be noted that each and every expenditure of Rs 150 crore or more made by the any arm of the government goes to the Cabinet committee of Economic Affairs for approval.

RIL's capital expenditure of nearly Rs 45,000 crore, as confirmed in Parliament by the Petroleum Minister just yesterday, is nearly 33 percent of India's total defence budget.

Yet, such mega expenditure was cleared by a management committee of four, comprising one junior official each from the Petroleum Ministry and Director General of Hydro Carbons, and two representatives of the Contractor (RIL).

The budgeted expenditure of RIL for peak production of 40 mmscmd in 2004 was only Rs 12,000 crore, which should not reasonably have exceeded Rs 20,000 crore when the production was doubled to 80 mmscmd.

However, it is surprising that the capital expenditure has actually gone up by Rs 25,000 crore to a staggering Rs 45,000 crore when the output became 80 mmscmd.

Expert analysis shows that if this was gold-plating of costs, the government could have lost upwards of Rs 30,000 crore.

When we raised this issue with the ministry, it appointed a so-called independent expert to examine the matter. In his testimony, he said, and I quote:

“It has not been possible to study perhaps a few of important documents which now appear relevant to the exercise. The most important is the production sharing contract between government and the operator.”

In other words, by his own admission, the expert didn't even read the terms of the PSC before putting his stamp of approval on RIL's capital expenditure!

I don't know what would be the right term to describe this elegant audit arrangement – co-option, co-operation, collaboration or

I hope some of our esteemed public accountability bodies like Comptroller and Auditor General (CAG) and Central Vigilance Commission (CVC) will, examine all relevant facts, and take appropriate action against the guilty persons, if indeed they find that huge losses have been caused to the public exchequer.

Q: What has been the fall-out of RIL's conduct on gas based power in India?

A: RIL's refusal to honor its binding contractual commitments has delayed power projects of national importance of 12000 MW by 5 years.

Committed investments to the tune of over Rs 50,000 crore have been held to ransom by RIL.

As a result, major power cuts, especially in Northern India, have become commonplace, causing grave hardship to hundreds of millions of consumers.

Contrary to the myths and rumours that are being deliberately spread by RIL, we are not seeking to take away the gas for any ulterior, unidentified or selfish purpose. We intend to use all the gas for the generation of clean, green and affordable power, a priority that has been duly accepted and endorsed by the Government.

If the gas supply contract had been honoured, we would have by now brought on stream up to 8,000 MW Dadri Project, overcoming the huge deficit of power which has afflicted Delhi and large parts of Northern India in the last few years.

Let me also add that in January 2009, Gas linkage to our Dadri and other power projects was approved by the Cabinet.

Therefore, RIL is solely responsible for the delays in setting up of these Greenfield power projects including Dadri.

Q: Isn't all this ultimately the fallout of the family dispute?

A: Let me state that the court cases are not a personal fight. There is no egoonly pain, hurt and emotion...a desire for fairness and justice.

The court cases were essential to enforce the gas supply agreements and thereby protect and enhance value for over 80 lakh shareholders of our Group and crores of power consumers in the country.

This is in line with the philosophy of our founder chairman Dhirubhai Ambani – who insisted that we must work for the welfare of our shareholders.

Indeed, we would have acted in the same manner if it were any other supplier of gas who was denying us our binding gas supply arrangements.

Let me also remind you that RIL's commitment to supply gas for our power projects at Dadri and elsewhere dates back to as early as January 2004 – more than 5 years back, and much before the reorganization in 2005. This was announced in RIL's own media release issued at the time.

In October 2004, a joint board meeting of RIL and Reliance Energy was held, wherein the directors of RIL reiterated their commitment to the supply of gas from KG Basin to the Dadri project.

So, this is entirely a corporate dispute – and not at all a personal one.

Q: Wouldn't it have been better if the two companies had resolved this dispute out of court?

A: We have repeatedly approached RIL in good faith, to sit down together and amicably arrive at a mutually acceptable solution in the larger public interest of a rapid implementation of our power projects. But RIL is only interested in dragging and delaying issues – and does not want a settlement at any cost.

To give just one example, I offered to personally meet at a time and place of the Bombay High Court's direction, at an hour's notice, and sit across the table with my respected elder brother to amicably resolve all issues. Unfortunately, RIL informed the court that it was not convenient for him to participate in any such discussions.

Last month, we addressed several letters to RIL to meet and arrive at a workable agreement as per the High Court judgment.

RIL refused to cooperate and instead sent us a letter on July 1, declining to participate in any such discussions.

Current Status

Our company was formed solely for the supply of gas from RIL to our Group companies for power and other projects.

Hence, the gas supply contracts are critical for the future of RNRL.

Unfortunately, RNRL will become a shell company if the gas supply contract is not honoured, as has also been observed by the Bombay High Court in their judgment.

Accordingly, we are determined to take all legal steps for the implementation of this agreement.

The case against RIL in this matter is now before the hon'ble Supreme Court. We are taking all necessary steps to have the matter finally decided in the most accelerated timeframe possible.

I have full faith in the judiciary of the country, and I am confident that we will, with the support and prayers of our 26 lakh shareowners and the infinite grace of God, succeed in our endeavour to have the gas supply agreements with RIL fully implemented.

The truth shall prevail.

Before I conclude, I want to thank, on behalf of our over 26 lakh shareowners, the Bombay High Court for protecting their rights and giving a clear, comprehensive and categorical verdict on a corporate dispute of great national importance.

The corporate restructuring of the Reliance Group, blessed by my respected mother, Kokilaben, was aimed at enhancing value for millions of our shareholders and give concrete shape to our founder Dhirubhai Ambani's well-head to wall-socket strategy for the Reliance Group.

Over the past 5 years, I have made every possible effort to resolve the outstanding issues with RIL so that we can all focus on realizing our founder's dream.

But, unfortunately, without any success.

On its part, RIL's has repeatedly shown that it will sadly stop at nothing to deny us and our millions of stakeholders what is legitimately theirs.

As you might be aware, I have recently written to Prime Minister Manmohan Singh, on this subject.

Dr Singh is globally respected for his sense of fairness, transparency and, above all, honesty.

I am confident that he will support the cause of truth and justice, and ensure neutrality of the Government in a purely commercial dispute between 2 corporate entities.

Thank you, ladies and gentlemen, for your time, patience and attention and overwhelming support to the cause of truth and justice.