

My dear fellow Reliance Power shareowners

It gives me immense pleasure to welcome each one of you to the 2nd Annual General Meeting of our Company since listing, though, for the record, it is our 15th AGM. It has been a landmark year for us despite facing one of the toughest global economic downturns ever in history. I am delighted to inform you that we achieved financial closure for 5000 MW of greenfield power generation projects, worth over Rs.25,000 Cr, when conditions for raising money in the power sector were probably the hardest they have ever been.

This is a tremendous vote of confidence in us from the country's top banks and lending institutions, reflecting not just their faith in our long-term financial health but also in our ability to flawlessly execute long-gestation infrastructure projects, even in these uncertain times.

We are ready to build on this success and expect to financially close projects of an even higher value in this financial year.

During the year, we won the Tilaiya Ultra Mega Power Project through International Competitive Bidding. With this, we have secured 3 of the 4 Ultra Mega Power Plants so far awarded in the country. We now own captive coal blocks with estimated reserves of nearly 2 billion tonnes, making us potentially the largest private sector coal producer in the country.

This gives us the fuel security to generate large quantum of power at competitive prices and fits well with our vision to emerge as India's largest private utility.

GROUP HIGHLIGHTS

We are proud to be a part of the Reliance Anil Dhirubhai Ambani Group, the youngest and fastest growing business house of India. Our Group's businesses span the entire landscape of emerging human aspirations. We cover some of the most critical, high growth sectors in the country's economy: from communications to financial services, from energy to power, from media and entertainment to healthcare and infrastructure.

Our Group net worth is today in excess of Rs 64,000 crore. Our annual cash flows across the Group are approximately Rs13,000 crore and Net Profit is Rs 8,000 crore. We have zero net debt at the Group level.

We operate in customer-centric businesses, touching the lives of over 150 million customers, or 1 in 8 Indians every single day. Our group enjoys the trust and confidence of early 12 million shareowners, the largest such family in the world.

The Reliance Power alone has over 3.7 million members, over 90 per cent of whom are small shareholders, with holdings of 100 shares or less. My fellow shareowners,

I seek your continued trust and support as we continue our journey to seek higher growth and value for all our stakeholders.

PERFORMANCE REVIEW

The Company's accounts for the year ended March 31, 2009, along with the Directors' report, letter to shareowners and the Management Discussion and Analysis have been circulated to you. With your permission, I would like to take them as read.

MACRO ECONOMIC ENVIRONMENT

The global financial meltdown impacted the Indian economy in several ways. At the most general level, there was a slow down in the growth momentum, with GDP expansion in FY 09 falling to 6.7 per cent from an average of nearly 9 per cent over the preceding 4 years. More specifically, the economy experienced a reversal of both capital and current account flows.

While the capital account turned negative as foreign institutional investors turned net sellers, the current account took a major hit on account of a sharp slowdown in exports. The global credit crisis led to a steep rise in the external borrowing costs for all emerging economies including India. This in turn caused a severe funds crunch in the country, which paralyzed large infrastructure projects. The Central government and the Reserve Bank took a series of fiscal and monetary policy initiatives to ease the situation.

These initiatives, together with a comfortable foreign exchange reserve position, a healthy financial and banking system and a moderate inflation rate have helped the economy bounce back from the slump quicker than others. The emphatic nature of the recent electoral mandate has further added to the expectations of a faster economic revival.

INDIA'S POWER SECTOR

The Potential for Growth

Rising living standards, increasing urbanization, favourable demographics, and the maturing of India's manufacturing sector are some of the key factors driving the growth of India's power sector. The recent initiative taken by the government to revive economic growth by hiking public spending on large infrastructure projects will give added momentum to this process. India, today, has an installed capacity of 1,50,000 MW. Despite the recent slowdown, the country experienced a peak deficit of 12 per cent during FY 09. India's per capita consumption of power stands at 700 kwh.

As compared to this, the per capita consumption in the US & China is 14,000 kwh and 2,000 kwh respectively. Power is one area of infrastructure where India lags far behind

even in comparison to other developing countries. We set out to achieve in the 11th plan period a capacity addition of 16,000 MW per annum. And what we have actually achieved is 50 per cent of even this modest target. Half-way into the current plan period, we have installed just 18,000 MW as against the target capacity addition of 78,700 MW. This large capacity addition programme, together with the requisite Transmission and Distribution Systems, would entail investments to the tune of over US\$ 200 billion.

Capacity Addition

The 11th Plan has set an ambitious capacity addition target of 78,700 MW for the period 2007-2012. This is more than the combined capacity addition achieved in the four previous plan periods. Of the current target, more than 15,000 MW of capacities are to be added by the private sector, the highest ever for any plan period. So far we have added barely 18,000 MW capacity, leaving a balance of almost 61,000 MW to be added in the remaining plan period at an average rate of 22,000 MW per annum, which is more than the 21,000 MW achieved during the entire five-year period of the 10th Plan.

In the late 1980s, India was adding about 4,500 MW a year. In the 7th Plan period, we added 21,400 MW to take our total capacity to 64,000 MW. In the same time frame, China, with a grid size double that of ours, was adding around 9,000 MW a year — that is, at a rate of growth more or less similar to India.

The gap has since opened dramatically.

While India doubled its generation capacity through the 8th, 9th and 10th Plans to 132,000 MW, China increased its capacity by four times to 700,000 MW during the same period.

As a result, our total capacity today is barely a fifth of China's.

If we study how China achieved such phenomenal additions, three factors stand out.

- Bulk ordering of capital equipment and standardization of design
- Indigenization of equipment via technology transfer, thanks to the massive volumes being procured.
- Single-minded focus on development of domestic coal mines within China.

EXPEDITING EXECUTION OF POWER PROJECTS

Following a slew of regulatory reforms, the Indian power sector is now primed for a take off. However, a number of key challenges remain. I briefly outline some of them below.

Fast Tracking Clearances and Approvals

Most of the delays in the implementation of power project take place during the development phase of the project and arise from issues related to land acquisition,

environmental clearances, fuel and water linkages. Normally, this phase consumes the maximum time in a plant's life cycle. Hence, effective monitoring and expeditious resolution of hurdles during this phase can ensure faster execution of projects. Getting clearances and approvals on time requires effective coordination among the various regulatory authorities. An empowered committee at the highest level of the Government should co-ordinate all clearances needed for large projects in time bound manner.

I am hopeful that the recently set up Cabinet Committee on Infrastructure will perform just that catalytic function.

Augmenting Financial Resources

Financing of Power projects is another key challenge as these projects involve huge capital expenditures funded primarily through a large debt component. While each project gets funded on its own economic viability, there are number of policy constraints such as exposure limits for banks which are unrealistically restrictive on lending for projects. The recent global financial turmoil has put added pressure on domestic lending institutions. Clearly, the government needs to take urgent steps to allow more funding into the power sector.

Given that around 100,000 MW of generation capacities have to be added in the next five years, capital requirement for generation alone will top Rs 500,000 crore, based on an average cost of Rs 5 crore per megawatt. Assuming a debt equity ratio of 70:30, the minimum amount to be raised as loans from the credit markets will be Rs 350,000 crore or Rs 70,000 crore every year. It is therefore imperative that all measures are taken to increase the availability of debt for the sector. The Government has taken a positive step in this direction by allowing India Infrastructure Finance Company Limited (IIFCL) to refinance 60 per cent of commercial bank loans given to Public Private Partnership projects in critical sectors. It has also permitted IIFCL to structure 'takeout' financing in order to enable incremental lending to the infrastructure sector.

Sustainable Fuel Utilization policy

Fuel availability and pricing are issues that need to be addressed on priority as the viability of power projects is critically dependent on them. India has vast coal reserves but the supply is not adequate to meet the targeted coal based capacity additions.

To reduce excessive dependence on coal, there is a need to tap alternative fuels such as natural gas. The use of natural gas in generation will not only bring down the lead time to construct gas based power projects but also ensure availability of clean and green power. The power and fertilizer sectors in India, which currently consume more than 70 per cent of gas in the country, have long been hampered by a substantial shortage of gas. However, the scarcity of gas in India now is only a short-term phenomenon. 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 the KG-D6 fields (only 4 percent of

which have been exploited so far) and discovery of reserves announced by various other players.

In a few years, we will be a gas surplus nation. It is important to note that affordability is as critical as availability when it comes to gas. Affordability alone can ensure that the gas used by power companies will generate power at competitive prices for the industry.

As regards the pricing of coal, the recent government decision to set up an *independent coal regulatory body* is an important step forward. However, the scope and authority of this body must be meticulously planned if it is to be fully effective. Considering the need to rationalise pricing and the allocation of available fuel in the Country, the assurance by the Finance Minister in the Budget that the country will “move towards energy security via Integrated Energy Act” is a step in the right direction.

OUR VISION

We are driven by the dream to emerge as India’s largest and most admired power utility. In the past year, we have made important progress in realizing that dream. Let me share with you some important milestones in that exciting journey.

Leveraging Financial Strength

As mentioned earlier, we achieved financial closure for the 4000-MW Sasan Ultra Mega Power Project, requiring an investment of nearly Rs 20,000 crore. The financing agreements have been executed with a consortium of 14 Banks and Financial Institutions, a landmark for the Project. The real significance of this achievement must be judged not just by the fact that it happened in an extremely difficult credit environment, both at home and in the international market, but also by that it is the first time ever in India’s project finance history that banks and financial institutions have appraised an integrated coal mine-cum-power project of this scale and size.

As a matter of fact this was the largest debt raised on project finance basis across any sector in India. We also achieved financial closure for our Rosa phase II and Butibori projects during the year. In all, we raised over Rs 20,000 crore *of* debt for our various generation projects.

We are on course to close a similar amount in this financial year, having made significant progress in getting appraisals and sanctions for our Krishnapatnam Ultra Mega Power Project.

Creating a Diversified Generation Portfolio

Over the years, we have strategically diversified our generation portfolio in terms of fuel supply, spatial distribution and off-take. We now have a multi-fuel project portfolio of over 33,000 MW, comprising 19,000MW of Coal, 10,000 MW of Gas and

4,000 MW of Hydro-based capacities. We have also built a comprehensive pan-Indian presence, with our projects spatially distributed right across the country – from the North-East to the South. While some of the plants are located close to the load center, others are in the vicinity of fuel source. As for off-take, the power generated by us will go to a vast majority of states in the country. What's more, it will be sold under a combination of long term and medium term Power Purchase Agreements (PPAs), with a portion of it reserved for merchant sale. This mix will help us achieve optimum returns. Currently, the market clearing price for short term power in the country is around Rs 6 per kwh. But this price is unsustainable over the longer term. We are committed to producing affordable and competitive power keeping in mind the long term interests of the country.

In short, our portfolio gives us a significant competitive advantage as it incorporates fuel diversity, fuel source diversity, geographical diversity, diversity of power sale arrangements, and a multiplicity of off-takers, substantially de-risking our business and revenue model. We will continue to focus on identifying and participating in bids which add significant value to our portfolio.

The Tilaiya Ultra Mega Power Project was one such opportunity which we secured at a levelised tariff of Rs 1.77 p/kwh. The Tilaiya UMPP comes with a captive coal mining block which is estimated to have reserves of around 1 billion tonne. The Tilaiya UMPP is located barely 400 kilometers from the site of the Sasan UMPP, creating a synergy between the two that will translate into significant benefits for both.

Harnessing Hydro Potential

While India offers a huge potential for generation of hydro electric power, the actual capacity created so far is only 37,000 MW, or 25 per cent of the country's total installed capacity, of which the private sector accounts for barely 1,200 MW. This is unfortunate because hydro-electric projects are the largest source of renewable energy in the world, and contribute significantly to the reduction of Green House Gas emissions into the environment. Keeping in mind the environmental benefits as well as the need for greater private participation in this segment of the power sector, we have substantially increased hydro capacity in our portfolio.

I am delighted to inform you that we have bagged four hydroelectric power projects – Amulin, Emini, Mihundon, Kalai, with a total capacity of 2,500 MW, from the Arunachal Pradesh government through a competitive bidding process. We now have over 4,000 Mw of Hydro projects in our portfolio, the largest for any private power utility in the country. These projects will bring jobs and development to the North-East, facilitating the region's integration into the national economic mainstream, while helping us balance our portfolio.

Accelerating Gas Based Generation

Our plans to realize the vision of my late father and our founder, the legendary Shri Dhirubhai Ambani, advocating the use of gas for power generation has received a major

boost with the recent Bombay High Court verdict in the RNRL vs RIL case. The court has categorically ruled in favor of RNRL, directing both parties to finalize an agreement within a month to ensure the supply of gas to RNRL as per the terms agreed to earlier.

The case is now being heard in the Supreme Court.

Exploring Nuclear Energy

Nuclear energy is increasingly being seen as a major future thrust area for India in meeting the twin challenges of reducing the excessive dependence on fossil fuels and cutting down on the emission of green house gases. What is needed is a sound regulatory and market framework to spur the development of nuclear energy and drive private participation in the sector. Across the world, many developed countries depend significantly on nuclear energy for their power needs. The figure ranges from as high as 75 per cent in France to about 20 per cent in the US. In sharp contrast, India has a little over 4,000 mw of nuclear power plants, indicating the potential headroom for growth. Apart from making suitable amendments to the Atomic Energy Act, the Government will need to make at least 15 other policy changes to permit the entry of private players into the nuclear domain. These include redefining the role of the regulatory board, enacting national legislations on civil liabilities, safety and operation of nuclear plants in line with international conventions and practices.

We have a dedicated team working on the Nuclear opportunity for the past three years, and have conducted a series of discussions with leading international players in the nuclear power industry. We will watch the emerging scenario in the nuclear space closely and hope to play a constructive role when the sector is eventually opened up for private investment.

Moving towards a Green Economy through Renewable Energy

There are no easy solutions for our complex energy and climate problems. Most experts believe that any realistic long-term strategy would necessarily comprise an array of options to be deployed in tandem rather than an approach that favours a particular energy source at the expense of others. In this context, there is an obvious need to harness the vast untapped contribution of wind and solar power in building a "green energy economy". Our group has set up wind based power plants in Maharashtra, Gujarat and Tamil Nadu with an aggregate capacity of 80 MW. We will continue to explore opportunities in the wind and solar space to add to our renewable energy portfolio.

NEW BENCHMARKS IN PROJECT IMPLEMENTATION

Our present portfolio of over 33,000 MW in the next 7-8 years averages to almost 5000 MW every year – easily the fastest pace of execution in the country across the sector. Of this, we propose to commission nearly 3000 MW by 2012. The pace of commissioning will pick up considerably after that, and we should be on course to bring on stream the remainder of our thermal projects by the middle of the 12th Plan.

We propose to commission hydro projects in a time frame of about 5 to 6 years, though they typically take about 7 to 8 years to complete.

1200 MW Rosa Project, Uttar Pradesh

Our first Power Project under implementation is the 600 MW Rosa Phase I located in Uttar Pradesh. I am proud to inform you that work on the project is running ahead of schedule and we expect to finish it before the end of this year. This means we will commission the project, from start to finish, in less than three years' time, a significant execution benchmark for India's power sector. We are also progressing well with respect to the implementation of 600 MW Rosa Phase II and expect to be up and running before the end of the 11th plan, that is, March 2012. There is sufficient land and water available to accommodate the additional capacity, while the state government has helped secure the fuel supply by awarding coal linkage for the expansion.

600 MW Group Captive Power Plant, Maharashtra

The Butibori Power Project in Maharashtra is being developed as a Group Captive Power Plant in which Industrial Consumers would have a stake. In return, they will receive power at a tariff which is lower than that charged by the state grid. The model is a win-win for both the developer, who is assured of the off-take, and the consumer, who is assured of reliability and quality of power supply. Given the keen response to the project, we are expanding the capacity from the current 300 MW to 600 MW. We are targeting to commission the projects before the end of the 11th Plan. We would consider setting up such projects in other parts of the country.

12,000 MW Ultra Mega Power Projects

We are developing 12,000 MW of Ultra Mega Power Capacities at three locations, namely, Sasan in Madhya Pradesh, Krishnapatnam in Andhra Pradesh and Talaiya in Jharkhand. The power from Sasan would be sold to customers at a levelised tariff of Rs 1.19 per kwh – the lowest for any Ultra Mega Power Project in the country. As a mark of our commitment to making Indian industry more competitive and consumers better provided, we are seeking to advance the commissioning of the Sasan project by almost three years.

The first unit of Sasan will commence generation in December 2011, while the full project will become operational by March 2013. We have been allotted three coal blocks at Moher, Moher-Amlohri Extension, and Chhatrasal to secure the fuel supply for generation. Together, these three blocks, with an annual production target of 25 million tonnes, constitute one of the largest coal reserves in the country. We are already in possession of most of the land required for the Krishnapatnam Ultra Mega Power Project and have commenced construction at the site. The first unit is scheduled to come on stream by 2013. The project is expected to be fully commissioned by October 2015. We have made significant progress in working out the fuel supply for the project. We have also made considerable progress in obtaining loan sanctions from banks and financial Institutions for the project and are confident of achieving financial closures this year.

4000 MW Chitrangi Power Project, Madhya Pradesh

The 4000-MW Chitrangi Power Project is strategically located near the site of the Sasan Ultra Mega Power Project. This will create synergies between the two projects on various aspects of execution and operation. The location of the Chitrangi project at the meeting point of the Western and Northern Regions, has the added advantage of helping it cater to the needs of the two most power deficit regions of the country. As with our other power projects, we will do everything in our power to fast-track the Chitrangi project. The Company has filed the necessary applications to acquire land for the project, which is already identified. Other approvals such as water linkages and environmental clearance are currently being processed so as to help commence construction at the earliest. As for off-take, we have already secured a bid to supply over 1,200 MW power to Madhya Pradesh Power Trading Co Ltd at a levelized tariff of Rs 2.45 per unit of electricity. As for the balance, we will tie up a portion of the capacity through long term PPAs, while reserving a substantial part for merchant sale.

8000 MW Dadri Project

The proposed Dadri gas-fired power project to be at the Dhirubhai Ambani Energy City in Dehra village in UP, has received long time back all statutory Central and State approvals, including environmental clearance. Indeed, it received these statutory approvals as far back as 2005. The company has been in possession of over 2,100 acres of land required for the Project for nearly 4 years. Earlier this year, the cabinet approved the gas linkage for the project. Dadri has figured on the lists of both the Planning Commission and the UP government as regards future capacity addition in the state for several years. In fact, it was part of the generation capacity addition that was identified as early as the 10th plan period. What has held up any further development of the project over the last 4 years is the obstinate refusal of Reliance Industries Limited (RIL) to honour its gas supply agreement with our group company, Reliance Natural Resources Limited. RIL's conduct in this regard tantamounts to dishonouring the vision of our Founder Shri Dhirubhai Ambani, who wanted to see gas from the KG basin to be used for the Group's power generation plans as part of his well head to wall socket strategy.

Had the gas supply agreement been honoured, the Dadri project would by now have been up and running, and filled in the huge demand supply shortfall, which has afflicted the Northern Region in the past few years causing widespread public resentment and occasional unrest and even riots. As if this wasn't enough, RIL has refused to accept the judgement of the Bombay High Court in this matter on three different occasions, including the most recent one on June 15th when it asked RIL to finalize a bankable gas supply agreement with RNRL in a month's time. The matter is now being heard in the Supreme Court.

I will share with you the details of this ongoing case at the RNRL AGM, which will be held here later in the day. Sustainable Development through Carbon Emission Reductions As part of our efforts to reduce the release of Greenhouse gases into the environment, we are adopting state-of-the-art super critical technology for our UMPPs and other thermal power generation plants, minimizing the environmental impact of these projects. Similarly, we plan to use state of the art gas-based generation technology to operationalize the Dadri and Shahapur power generation plants.

With increasing focus on environment related issues, power projects employing clean and environment-friendly technology can earn carbon credits, which are traded extensively in the international market.

Global carbon credit supply is likely to be under pressure in the near future due to a combination of regulatory delays, difficulty in arranging funds for power projects in a challenging financial environment, and the renegotiation or cancellation of some carbon contracts. Alongside supply side constraints, changes in the policy landscape, particularly the re-emergence of the US in climate change debate under President Barack Obama, is expected to fuel a higher global demand for carbon credits. We are in the process of applying for registration with Clean Development Mechanism (CDM) for our power projects, most of which are eligible for carbon credits.

Let me briefly share with you the status of our various initiatives in this direction.

We have received host country approval for Sasan UMPP from the government. The project is currently under validation and the process is expected to conclude shortly. We have submitted the Project Design Document (PDD) for host country approval for Krishnapatnam UMPP. Both Sasan and Krishnapatnam will qualify for carbon credits under CDM as the projects employ super-critical technology, which helps in Green House Gas reduction.

Our environment-friendly hydroelectric power projects and our upcoming gas- based generation projects at Dadri and Shahapur will also become eligible under the CDM scheme due to lower Green House Gas emissions. We continue to examine opportunities in wind, solar, hydro and other renewable sources of energy at suitable locations in India.

CONCLUSION & ACKNOWLEDGEMENTS

This has been, in many ways, an extraordinary year for your company – a year in which we have made rapid and substantial progress in all our projects. It has also been a year in which our resilience and strength as an organization have shown through. This gives me the confidence to believe that we are well on our way to achieving our vision of becoming a leading power generation company, and one of the most valuable business enterprises in the country. Before I conclude, I wish to acknowledge the contributions of several individuals, institutions and organizations, who have partnered us in this exciting journey. My sincere appreciation to all colleagues for their professionalism, dedication and unmatched commitment to the objectives of the organization. My thanks to the members of the Board for their guidance and support. My gratitude to financial institutions, banks, vendors, regulatory authorities and policy makers for their steadfast support and co-operation. But, most of all, my profound indebtedness to all of you, my fellow shareowners. It is your faith, trust and commitment that has been the driving force in our quest for ever higher growth and excellence.

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

Mumbai
July 28, 2009

Anil D Ambani
Chairman