

RIL's perspective on CAG's report on KG-D6 Expert Reports on www.ril.com

Mumbai, September 09, 2011: The Comptroller & Auditor General of India (CAG) Performance Audit Report on the Hydrocarbons Production Sharing Contracts (MoPNG) has been tabled in the Parliament. As part of the audit process, RIL had provided its responses to the CAG and the views of technical experts on the subject.

RIL had engaged Ernst & Young (E&Y), a global consulting firm; IPA Inc., an industry leader in quantitative analysis of project management systems; and Daniel Johnston & Co. Inc., an independent US based consulting firm with experience of working with 40 governments and numerous independent oil companies worldwide. The reports of these experts are available on its website, www.ril.com.

RIL commenced gas production from KG-D6 in six and a half years from discovery, in comparison to the global average of 9-10 years for similar deep-water production facilities. This mega project was completed in a timely manner despite hostile weather conditions for major part of the year, significant supply chain constraints and shortage of manpower. Commencing production was a complex task, requiring engineering ingenuity to develop critical infrastructure and the use of cutting-edge technology. Production of oil and gas from KG-D6 has resulted in augmenting India's energy security, lowering subsidy burden in the fertilizer sector and increased availability of power.

E&Y was asked to perform a procurement audit and confirm that cost were correctly allocated to the KG-D6 project, confirm from major vendors with significant KG-D6 spend of the total value of payments, reviewing transactions with related parties, reviewing project management principles relevant to the assessment of KG-D6. E&Y reported as follows:

1. There was no evidence identified suggesting that KG-D6 costs were overstated in purchases from third parties or purchases from related parties and affiliates and in respect of other costs including allocated costs and non-purchase order-based expenditure.
2. E&Y have received confirmations from over 92% of the vendors who have supplied goods & services greater than \$ 10 million and other randomly selected vendors who have supplied goods & services below \$ 10 million. These vendors have confirmed the following:
 - a. Receipt of payments.
 - b. These payments are relating to the goods and services supplied to KG-D6 project.

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- c. They have not made directly or indirectly any payments to RIL or any related party to RIL or to any of its employees.
- d. Their bidding was market competitive and prices charged were comparable to the then prevalent prices in the market.

Furthermore, no negative replies have been received to any of the questions in the confirmation.

3. Of the total project cost of \$ 8,166 million relating to exploration and development incurred till March 31, 2011 in KG-D6, only 1% was incurred through related parties. The related parties transaction were primarily for purchase of fuel and chemicals by following a competitive bidding process and was indeed supplied at a price lower than what was procured through Indian Public Sector Companies.
4. Key vendors are all reputed companies and global leaders in oil services, onshore engineering and construction, sub-sea construction and pipeline installation.
5. With regards to the impact of escalation of capital expenditure, E&Y confirmed that any increase in capital expenditure is detrimental to both the Contractor and the Government.

IPA was requisitioned to benchmark the KG-D6 project vis-à-vis other global scale projects and to review the comprehensiveness of the Field Development Plan (FDP). IPA compared the KG-D6 FDP with 53 other global FDPs including projects undertaken by the super-major oil companies and government-owned companies. IPA reported as follows:

1. It compared the FDPs on five essential criteria such as cost overrun, cost competitiveness, slippage in execution, schedule competitiveness and operability. When measured against these criteria, it rated the KG-D6 as what it deems as a successful project.
2. The KG-D6 project faced considerable physical and execution environment challenges as well as difficulties faced in the E&P capital projects market. Despite these challenges, the project achieved successful outcomes across most project measures including cost growth, cost competitiveness, operability performance and schedule competitiveness.
3. It rated the KG-D6 FDP as being very comprehensive when compared with industry standards; besides being more detailed than other similar Asian projects. IPA's E&P database contains information for more than 1,200 projects executed by 38 companies across the globe. Based on this database, IPA has developed a set of statistical models that evaluate project outcome in key areas of cost, schedule and operability.
4. They reviewed the KG-D6 gas project AIDP and compared it with other projects in their database that also submitted a revised FDP. They found that RIL's submission thorough and provided clear documentation of the requirements and the reasons for the revision including updated sub-surface information.

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Daniel Johnston & Co. Inc. commented on the key observations made in the draft CAG report. These included:

1. The appraisal activities which RIL has carried out in relation to the various discoveries in the KG-D6 block are consistent with the letter and spirit of the commercial provisions of the KG-D6 PSC. These discoveries were appraised sufficiently and in a manner consistent with good international petroleum industry practices (GIPIP).
2. Extensive drilling, seismic and geological activity undertaken in the KG-D6 make the block one of the most extensively appraised frontier, ultra-deep water blocks in the world. Technological advances with 3D seismic data have placed seismic technology almost on par with drilling in respect of its ability to aid in appraising a discovery and in establishing a geological model. This is particularly true when this data is 'tied-in' and calibrated with offset well information as was the case in KG-D6.
3. Industry costs rose considerably during the period between the IDP submission in May 2004 and subsequent operations under the AIDP approved in December 2006.
4. The final cost of Phase-1 appears to have been within 10% of the estimate of costs given in the AIDP. This is well within any reasonable margin of error and is accommodated in the PSC. This has to be seen in the context of tightening of market conditions, sharp increases in commodity prices and the costs of oil and gas equipment and services, adverse weather conditions and tidal currents encountered in the area of development.
5. The petroleum fiscal system currently in force in India does not create any incentive for the Contractor to indulge in overspending.
6. The exploration, appraisal and development operations carried out by RIL in the KG-D6 block are entirely consistent with GIPIP. RIL has diligently and aggressively pursued highly successful exploration, appraisal and development operations and has done so in accordance with GIPIP. Based upon the technical (G&G) data available at the relevant times DGH's decision to treat the entire block as a Discovery Area was a reasonable decision fully supported by the data and the situation.
7. The actions taken by RIL, the Management Committee and the DGH are fully consistent with the relevant provisions of the PSC.

The independent reports by E&Y, IPA and Daniel Johnston & Co. Inc. entirely validate RIL's stand in its responses to CAG. The independent nature of these studies conducted by globally reputed consultants has acknowledged RIL's commendable efforts in bringing to stream India's first deep water hydrocarbons production facility in record time.

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RIL believes that with the completion of the KG-D6 project, it has set a global benchmark for effective, efficient completion and cost competitiveness. RIL is proud of its achievements accomplished in the most challenging circumstances. The fact that an energy major like BP has entered into a strategic partnership with Reliance in this block, further vindicates our position. With its newly established partnership with BP, RIL is confident of unlocking the full potential of KG-D6 and other blocks thus bringing greater benefit to the nation.

About RIL

Reliance Industries Limited (RIL) is India's largest private sector company on all major financial parameters with a turnover of INR 2,58,651 crore (\$ 58.0 billion), cash profit of INR 34,530 crore (\$ 7.7 billion), net profit of INR 20,286 crore (\$ 4.5 billion) and net worth of INR 1,51,540 crore (\$ 34.0 billion) as of March 31, 2011.

RIL is the first private sector company from India to feature in the Fortune Global 500 list of 'World's Largest Corporations' and ranks 119th amongst the world's Top 200 companies in terms of profits. RIL ranks 68th in the Financial 'Times FT Global 500' list of the world's largest companies. RIL is ranked amongst the '50 Most Innovative Companies - 2010' in the World in a survey conducted by the US financial publication - Business Week in collaboration with the Boston Consulting Group (BCG). In 2010, BCG also ranked RIL as the second highest 'Sustainable Value Creators' for creating the most shareholder value over the decade in the world.

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