REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31ST DECEMBER, 2007

The Directors have pleasure in presenting their Report and Statement of Accounts for the year ended 31st December, 2007.

	For the year ended 31st December, 2007 (Rupees in Crores)	For the year ended 31st December, 2006 (Rupees in Crores)
FINANCIAL RESULTS		
Gross Profit before Depreciation, Exceptional Items & Tax	**360.62**	250.25
Deducting therefrom:		
Depreciation	**20.78**	18.01
Provision for Tax		
Current [Including Wealth Tax of **Rs. 0.16 Crores** (2006: Rs. 0.16 Crores)]	**139.94**	85.24
Deferred Taxation	**(23.56)**	(5.72)
Fringe Benefit Tax	**5.56**	3.62
Excess Income Tax provision for earlier years written back	**(0.53)**	(5.39)
Profit after Tax	**218.43**	154.49
Adding thereto :		
Balance as per last Balance Sheet brought forward	**40.29**	30.69
Profit Available for Appropriation	**258.72**	185.18
The appropriations are :		
Dividend		
Interim	**55.64**	49.46
Final	**117.46**	61.82
Tax on Dividend		
Interim	**9.46**	6.94
Final	**19.96**	8.67
Final – 2006	**1.84**	—
Transfer to General Reserve	**22.00**	18.00
Balance carried forward	**32.36**	40.29
	258.72	185.18

PERFORMANCE

Sales increased by 9% over previous year, to Rs. 2216 crores mainly due to increase in unit sales realisations and better sales mix.

Cost of materials reduced by 5.6% over previous year to Rs. 1098 crores due to lower volumes, savings in raw material cost on account of effective procurement strategy and favourable forex.

Operating and other expenses increased due to increase in advertisement and sales promotion expenses, employee related costs and partly offset by reduction in freight and processing charges.

Profit Before Tax increased by 46% over previous year to Rs. 340 crores.

Tax rate for the current year has remained at the same level as that of the previous year. Tax expense for the previous year was lower as the Company had written back excess provision for taxation of the earlier years (net) amounting to Rs.5.4 crores.

As a result Profit After Tax increased by 41% over previous year, to Rs. 218 crores.

CORPORATE GOVERNANCE

Pursuant to Clause 49 of the Listing Agreement, a Management Discussion and Analysis Report and a Report on Corporate Governance are given as Annexures 'A' and 'B' respectively to this Report.

A certificate from the Statutory auditors of the Company regarding the Compliance by the Company of the conditions stipulated under clause 49 of the Listing Agreement is also attached to this Report.

The declaration by the Managing Director pursuant to clause 49(1) (D) of the Listing Agreement stating that all the Board Members and Senior Management Personnel have affirmed their compliance with the Company's Code of Conduct for the year ended 31st December, 2007 is also attached to this Report and marked Annexure "C".

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956 your Directors confirm that:

(i) In the preparation of the annual accounts, the applicable accounting standards have been followed and no material departures have been made from the same.

(ii) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as on 31st December, 2007 and of the profits of the Company for the year ended 31st December, 2007.

(iii) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities.

(iv) The Directors have prepared the annual accounts on a going concern basis.

DIVIDEND

The Interim Dividend in respect of the year ended 31st December, 2007 of Rs. 4.50 per share on 12,36,40,298 Equity Shares was paid to the Shareholders of the Company whose names appeared on the Register of Members on 8th August, 2007.

The Directors have recommend a payment of final dividend of Rs. 9.50 per share on 12,36,40,298 Equity Shares.

FIXED DEPOSITS

There were no fixed deposits outstanding and unclaimed as on 31st December, 2007.

DIRECTORS

Mr. S. M. Datta and Mr. A. S. Ramchander retire by rotation and are eligible for re-appointment.

The information on the particulars of Directors seeking appointment/re-appointment as required under Clause 49 of the Listing Agreement executed with the Bombay Stock Exchange Limited and the National Stock Exchange of India Limited has been given under Corporate Governance (Annexure 'B') of this Report.

LISTING OF EQUITY SHARES OF THE COMPANY ON THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED.

The Company's equity shares are also being traded with effect from 16th August, 2007 on the National Stock Exchange of India Limited.

CONSERVATION OF ENERGY

(a) Energy conservation measures taken:

Energy conservation during the financial year has accrued as a result of the following steps taken at the various factories of the Company:

Patalganga:

1. Solar Lights (10 nos.) installed across the plant for illumination.
2. Reduction of Batch Cycle Time (BCT) for Viscosity Index Improver products, for engine oil (Product name: Active 4T) by 4 Hours & Hitec 5777 product by 18 Hours.
3. Elimination of screw capping machine from 1 L filling line.
4. Elimination of 2 no's. of 60 hp motor connected with cutter unit of Viscosity Improver blenders by process improvement.
5. Reduction of Maximum Demand (MD) by eliminating 2 nos. of High speed 60 HP motor from Viscosity Improver blender by process improvement.
6. Reduction of Changeover time in 5 Liter filling lines by process improvement.
7. Replacement of 25 nos. Conventional tube-lights by energy efficient tube-lights.
8. Reduced the connected load by 7.5 HP for additive pump by conducting motor load survey, replacing old inefficient pumps by new pumps with right capacity motors.
9. Replacing Motorized conveyor (Motor capacity – 1 HP) with idle roller conveyor.

Silvassa:

1. Replacement of Energy Intensive vacuum Palletizer. Line-4 filling line had a vacuum palletizer for barrels. This vacuum palletizer main prime mover was air pressure. This was replaced with a mechanical palletizer which does not require air or electricity. This reduced the load of air compressor leading to savings in air compressor.
2. Reduction of running hours of borewell pump: The site water consumption was to the tune of 12000 kl per month. This directly correlated to the running hours of borewell. A water conservation program was chalked out and implemented which reduced the water consumption by more than 50%. This has reduced the borewell pump running hours generating substantial savings in energy consumed.
3. Installation of high level trips: The raw water tank did not have an overflow trip mechanism. Due to this borewell used to run continuously. A high level trip mechanism was installed in raw water tank which now trips the borewell pump. Total running hours of borewell pump has now reduced leading to energy savings.

4. Installation of energy efficient Air Conditioners in control room: The air conditioners installed in control room were not energy efficient. This was replaced by a Carrier make which has reduced the running hours of this equipment. This has helped in savings of energy units of the site.

Tondiarpet:

1. Replaced thirty numbers conventional Tubelights by Energy Efficient Tubelights.
2. Replacement of 4 numbers inefficient pumps by Energy Efficient Pumps.
3. Replaced 3 Numbers old split air conditioners by energy efficient air conditioners.
4. Installation of energy efficient screw type air compressor with inbuilt VFD.
5. Insulation Jackets fitted to steam line flanges.

Paharpur:

1. Through monitoring of Electrical installation for proper use and to conserve electrical energy i.e. power bill.
2. Use of solar lighting / solar heating system at plant in place of electrical energy.
3. Providing additional capacitor unit for "pf" enhancement.
4. Monitoring the utilization of Thermopack for reduction in consumption of LDO for burner.

(b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy:

None in particular.

(c) Impact of measures at (a) and (b) above for reduction of energy consumption and consequent impact on the cost of production of goods:

The measures mentioned in (a) above have led to reduction in fuel and electricity consumption as well as improvement in the productivity.

TECHNOLOGY ABSORPTION

1. There was continued focus on Health, Safety, Security and Environment during the year at Technology Centre. Measures were taken to upgrade the site security and various other actions were implemented to improve compliance to BP's integrity management standards.
2. Recognition of R&D Centre was renewed by the Department of Scientific and Industrial Research, Government of India.
3. An integrated business continuity plan for Technology Centre embedding the pandemic response plan was developed and implemented.
4. A program was taken up to replace Asbestos roofing with environment friendly materials.
5. Your Company has embarked on a journey of upgrading the site safety measures, laboratory facilities and infrastructure. There will be continued emphasis in this direction in 2008.
6. Steps were initiated to enhance technology protection by introducing global codes for raw materials right from procurement stage.
7. Your Company had a number of product upgrades and launches in the fast growing automotive segment through the introduction of CRB Turbo meeting API CH4 specifications, Magnatec with intelligent molecules as well as specially formulated lubricants for major OEMs.

8. A number of Technologies for products from different market spaces were validated under Indian conditions for specific propositions like fuel economy, extended drain and sludge control to support global as well as local market requirements.

9. Formulation optimization initiatives by Technology team with support from supply chain received great amount of focus and attention.

FOREIGN EXCHANGE EARNINGS AND OUTGO

1. **Activities relating to Export**

   There were no significant exports by the Company during the year.

2. **Earnings and Outgo**

   Members are requested to refer to note Nos. 17 & 18 of Schedule M forming part of the Balance Sheet and Profit and Loss Account for the year ended 31st December, 2007.

PARTICULARS OF EMPLOYEES

The information required to be published under the provisions of Section 217(2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975 as amended is enclosed in this Report.

AUDITORS

The Shareholders of the Company are requested to appoint Auditors and to fix their remuneration. M/s. S.R. Batliboi & Co., Chartered Accountants, the retiring Auditors have furnished to the Company the required certificate under section 224(1B) of the Companies Act, 1956 and are therefore eligible for re-appointment as Auditors of the Company.

PERSONNEL

The Board wishes to place on record its sincere appreciation of the efforts put in by the Company's workers, staff and executives for achieving excellent results under difficult conditions.

STAKEHOLDERS

The Board also wishes to thank its Shareholders, Distributors, Bankers and other business associates for their support during the year.

On behalf of the Board of Directors

N. K. Kshatriya *Managing Director*	A. S. Ramchander *Director – Automotive*
A. Ahmad *Director – Supply Chain*	A. P. Mehta *Finance Director*

Mumbai
Dated: 24th March, 2008

ANNEXURE A

MANAGEMENT DISCUSSION & ANALYSIS REPORT

Pursuant to Clause 49 of the Listing Agreement, a Management Discussion & Analysis Report covering segment-wise performance and outlook is given below:

(A) Industry structure and developments – 2007 and 2008

The lubricant industry in India is broadly divided into 3 major market sectors: Automotive, Industrial and Marine & Energy applications. The industry is led by four major players, (Indian Oil Corporation Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited and Castrol India Limited) who contribute to over 70% of the market. There are several players including global majors operating in the balance 30% of the market, leading to an extremely competitive market scenario.

The year 2007 has been positive in terms of demand and profit outlook for the industry. This has been possible due to a strong growth in the economy and a reduction in cost of base oil in 2007 from the peak levels of 2006. Though in the last quarter of 2007 crude oil started a steep upward climb nearing US$90, it did not impact the input costs during the year.

The Passenger Car sector registered the highest growth in vehicle sales during the year while Motorcycle sales declined and that of Commercial Vehicles broadly stagnated. Despite this, the lube market registered a growth due to addition to the vehicle parc (rolling stock) and a strong growth in the off-road, industrial and mining segments.

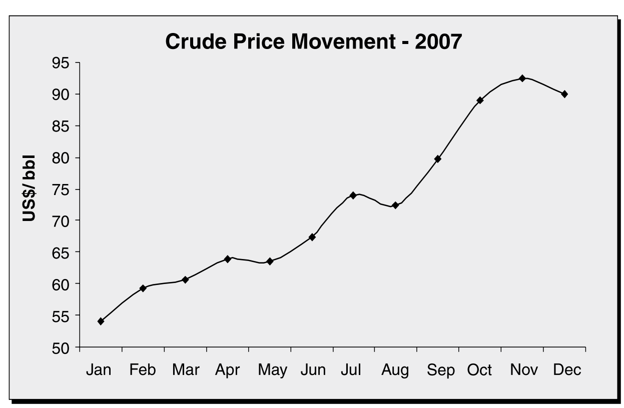
The year 2007 also saw leading Commercial Vehicle Original Equipment Manufacturers (OEMs) making dramatic changes to their recommendations on oil drain intervals (doubling over current levels) and an emergence of semi-synthetic and synthetic oils recommended by the Passenger Car OEMs. The last two trends are expected to have a significant impact on the volume consumption of Automotive Lubricants.

At a macro-economic level, the cost of doing business increased due to sharp inflationary trends in remuneration, travel and other cash costs.

Major Industry developments

1. Crude oil

Crude oil, the main input into base oil, reached an all time high of US$96 during the year. Unlike in 2006, when crude prices were volatile, 2007 saw a steady and steep growth in prices especially in the second half. The effect of this on in–year costs was not pronounced as fuel prices were stable in India on account of government subsidies. The graph below indicates the trend of Crude Price in the year 2007.



2. Base Oils and Additives

Average base oil price for 2007 was comparable with average levels of 2006 though they softened in the first two Quarters of 2007 from their all-time highs of 2006. However, the refining margins of base oil manufacturers declined in the second half of the year due to the sharp increase in crude prices. The prices started climbing again around the end of 2007 and show a trend of further increases in 2008. However, the overall costs were managed well by your Company in 2007, due to successful implementation of its procurement strategy.

Additive prices were stable during the year at the increased 2006 levels. The base oil and additive categories also had supply issues in select high grade categories like Poly Alpha Olefins and Group 3 base oils.

In terms of supply and demand, Bharat Petroleum Corporation Limited started commercial operations adding capacity to the local base oil refining industry. This helped reduce imports of base oil into the country. In 2008, the projected base oil and COGS (Cost of Goods Sold) scenario for the industry is expected to be strongly inflationary. This is expected due to stronger crude prices and lower refining margins of base oil suppliers.

3. Emergence of Long Drain Oils

Key commercial OEMs continued their pursuit of longer drain lubricants and Tata Motors introduced new oil drain specifications for their Heavy and Medium Commercial Vehicles for both crankcase (Engine Oils) and transmission Lubricants. The engine oil drain period has been doubled to 36000 kms while the transmission oil drain intervals have risen to 72000 kms. These specifications are expected to be adopted by current fleet owners for existing vehicle stock thus significantly reducing consumption per vehicle. This is expected to reduce volume growth significantly over the next 3–5 years.

4. Entry of new OEMs

The year 2007 also saw several global OEMs accelerating their efforts in India. BMW, VW, MAN, Audi, Volvo and Renault started offering new vehicles to the Indian consumer. This is expected to bring new technology vehicles into the Indian market and provide additional opportunities for lube players.

Market behaviour and outlook

Automotive Sector outlook

The automotive lubricant sector can be segmented as per the following vehicle categories:

(a) Trucks, Tractors and Off-Road Equipment – mainly diesel engine oils

(b) Passenger Cars – mainly gasoline engine oils

(c) Motorcycles and 3-Wheelers – 2-stroke and 4-stroke oils

1. Market growth: The automotive lubricant market is estimated to have grown volumes by over 3% on the back of a strong economic performance. This has been led primarily by the increased motorcycle and car stock, growth in agri-driven lubes consumption and a booming construction sector. The old generation truck market and the 2-stroke motorcycle lubes market, is projected to continue declining sharply in the short-term.

2. Growth outlook: The trends highlighted above are expected to continue into 2008. Over 1 million cars and Utility Vehicles and about 6 million 4-Stroke 2-wheelers are projected to be sold in 2008. The Building and Construction segment feeding the infrastructure sector is expected to grow at a fast pace during 2008 on the back of a similar growth in 2007. Thus, lube consumption is projected to grow strongly in cars, 4-stroke bikes and the Building and Construction equipment segments.

The monsoon in 2007 was satisfactory and led to a growth of about 1-2% in the consumption of tractor lubricants. This trend is expected to be maintained in 2008 if the monsoon continues to be at average levels. The new generation, high technology truck segment expanded in 2007 and this trend is expected to continue in 2008. However, Commercial Vehicle sales were sluggish during the year, which is likely to affect consumption of lubes in OEM dealerships. This channel is a significant portion of the Commercial Vehicle oils market segment. In addition, drain interval extension to double the current limits makes it likely that OEM dealership volumes in Commercial Vehicles may come down to 50% of current volumes. While this would depress the volumes of diesel engine and gear oils, it is expected that the technologically superior products being used to increase drain intervals will provide opportunities for overall value growth in the market segment.

In the year 2008, the overall lube market is projected to post a growth of around 2-3% in volume terms.

3. Channels: The year 2007 saw the emergence of new channels in a significant manner. OEM dealerships and authorized workshops continued to register good growth in volumes at an aggregate level though the trends were sharply divergent between Commercial Vehicles and other vehicle types. The Public Sector Units have entered into agreements with OEMs offering their petrol stations as servicing points, thus increasing captive consumption of lubes. Independent service chains introduced in recent past in the market may also become significant players over the next few years. With the market weight shifting slowly towards bikes and cars, the small independent workshops are growing faster. The DIY (Do-It-Yourself) channels like fuel stations and oil shops are either stagnating or declining. These trends are expected to continue into 2008.

With the rapid growth in vehicle parc and the infrastructure sector, the shape of the customer groups would be undergoing significant change in the future. Fleets, construction companies and large workshop groups would be forming an increasing percentage of the market. This in turn will require companies to develop customer specific offers and capabilities to take advantage of this trend.

Another trend which is rapidly catching up is the emergence of organised retail chains. While the impact on lubricant sales at this juncture is minimal, these outlets could present opportunities for marketing to customers in the future.

4. Competitive activity: The competitive situation remains largely unchanged with all major international lubricant players having been present in the market for several years now. Your Company continues to be the leading brand in the retail sector, followed by the public sector brands. However the smaller players have been competing aggressively with lower prices and higher sales promotions to gain market share.

Castrol continues to be a major player in the Automotive lubes market and holds a market share of approximately 21% in the overall market, according to internal estimates.

Non-Automotive sector outlook

Industrial lubricant demand is dependent on industrial production and growth trends in the economy.

The industrial production grew by an estimated 8.5% in the year 2007. Also growths in IIP (Index of Industrial Production) and GDP have been driven by growth in the investment in India's industry sector. This is a positive trend and will help your Company continue its strong performance in this sector.

In your Company's core segments in the Industrial business, Metals is growing at an impressive double digit growth. Transnational accounts as well as Indian steel majors have proposed big investments in green-field, integrated steel plants. In the Auto segment, Passenger Car sector is slated to grow in double digits during 2007-08 but high interest rates and a gradual shift in customer preference in favor of 4-wheelers continue to take a toll on growth in 2-wheeler segment.

Overall, the Industrial sector is likely to sustain the current growth with domestic companies becoming aggressive for growth. Major global manufacturers are also setting up bases in India, exploiting manufacturing efficiencies and the availability of a big catchment market. This industrial growth in the core segments of Auto, Machinery Manufacturing and Metals will drive the Industrial lubricants business growth in the coming years. Within the Industrial lubes market, your Company is focused to add distinctive value to its customers by delivering differentiated products & services and through unique segment offers.

(B) Opportunities & Threats

(i) Opportunities

Automotive sector

a. **Overall economic activity:** With an expected GDP growth of about 8% per annum, rapid growth in the industry and infrastructure services sectors and a good monsoon predicted during the year, the basic consumption drivers for lubricants are in place. This is expected to give a boost to the volume growth in the market and to directly impact movement of goods and hence consumption of Commercial Vehicle engine oils.

b. **Growth in personal mobility:** Growing personal disposable incomes and double income households are expected to drive demand for cars and 2-wheelers despite hardening of interest rates. Castrol has strong brand equity in these segments and growth in the personal mobility segment would have positive implications on your Company's performance. The business in these segments, especially cars, is driven to a large extent by the workshop channel where superior service propositions, along with strong brands, can lead to significant business gains.

It is also expected that the rural growth of 4-stroke motorcycles will outstrip urban demand in the foreseeable future. This trend presents both an opportunity as well as a challenge to your Company.

c. OEMs: Many international and global OEMs have entered the Indian market. Your Company's strong record of partnership with major Indian and global OEMs will make this a good business opportunity. During the year 2007, Castrol extended its agreement with Tata Motors Commercial Vehicle Division for transmission oils and has signed-up with Volvo, Audi and Ford for participating in their workshops for high quality lubricants. In addition, key off-road equipment manufacturers have also chosen to extend their association with Castrol into the next few years. These developments present your Company a strong opportunity in 2008 and in the next couple of years.

d. Changes in engine technology: This presents an ideal opportunity for your Company to leverage its range of high technology, superior quality products supported by a global product range available with your Company's parent organization. However, this will also present a risk to the volume growth of your Company.

e. Infrastructure growth: Road and Building infrastructure has received a fillip in the recent years through consistent investments by both government and private sectors. These projects, due to be completed by end-2008, are likely to transform the infrastructure availability as well as the road transport industry. In the short term, the off-road sector is likely to grow faster than historic levels due to the increased construction activity in the country. The infrastructure projects are expected to be large consumers of lubricants and this trend will benefit your Company because of its national reach, strong alliances with construction OEMs and well trained sales team.

f. Demand for Automotive Services: With a major growth in number of vehicles on road, the automotive services sector is opening up business opportunities for your Company. By the end of 2007, Castrol had 96 BikeZones spread across the country.

g. Environment friendly products and services: With the future growth in technology being directed towards emission-control, recycling, safety and noise-control, your Company can leverage its global strengths and expertise in these areas. The rising consciousness of the environmental impact of human endeavor is expected to enhance the appeal of high-end lubricants to large players due to its low impact on environment. Castrol and BP lubricants have products with specific focus on alternate fuels like CNG and LPG which should help gain volumes and market share in this fast growing segment of cars as well as Commercial Vehicles.

Non-Automotive sector

a. Industrial Sector: At the macro-economic level, with good monsoon conditions supported by a strong Industrial growth, India looks set to maintain its high growth trend in 2008. In the core segments, global benchmarking and standards is becoming critical. Industry is looking for global best practice sharing, where your Company is implementing global segment offers to align to the needs of the Industry. Proliferation of Small & Medium Enterprise clusters supporting the core industry is a huge opportunity which your Company intends to capture through the change in route-to-market implemented during 2006-07.

b. Major investments in the Core segments: India is being increasingly acknowledged for its superior