MRPL

BOARD OF DIRECTORS

Shri M. C. Bagrodia	Chairman (w.e.f. 2.8.2002)
Shri D. S. Mathur	
Shri P. Ramakrishnan	
Shri N. K. Puri	
Shri C. Ramulu	
Shri B. N. Puranmalka	
Shri Girish Dave	
Shri S. T. Bambawale	
Shri M. P. Modi	Nominee of ICICI Bank Ltd.
Shri G. M. Ramamurthy	Nominee of IDBI
Shri D. K. Deshpande	Managing Director (Technical)
Shri Ravi Kastia	Managing Director (Fin. & Admn.)

SENIOR EXECUTIVES

Shri V. K. Talithaya, Vice President (P&A)
Shri J. C. Laddha, Associate Vice President (Finance)

COMPANY SECRETARY AND GENERAL MANAGER (FINANCE)

Shri Lalit Kumar Gupta

REGISTERED OFFICE

Mudapadav, Kuthethoor P.O. Via Katipalla,
Mangalore - 574 149, Karnataka.

INVESTOR RELATIONS CELL

Arcadia, 7th Floor, 195 N. C. P. A. Marg,
Nariman Point, Mumbai-400 021.
E-mail : mrplbom@vsnl.com
Tel : 2393333
Fax: 2029772

AUDITORS

M/s. Lodha & Co., Chartered Accountants
M/s. Sharp & Tannan, Chartered Accountants

SOLICITORS

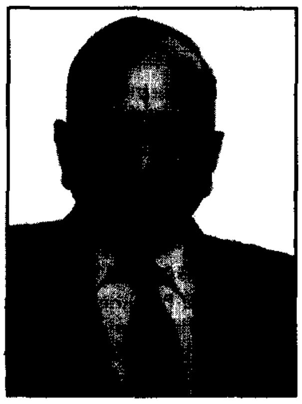
M/s. Mulla & Mulla & Craigie Blunt & Caroe

BANKERS

State Bank of India
Bank of Baroda
Canara Bank
Punjab National Bank
Bank of India
Corporation Bank
Oriental Bank of Commerce
United Bank of India
Citibank N.A.
HDFC Bank
ABN Amro Bank
Vijaya Bank
State Bank of Hyderabad

REGISTRAR AND TRANSFER AGENTS

MCS Limited,
Sri Venkatesh Bhavan, Plot No. 27,
Road No. 11, M.I.D.C., Andheri (E),
Mumbai - 400 093.
Tel. No. : 8215235
E-mail: mcsmum@bom2.vsnl.net.in



CHAIRMAN'S MESSAGE

Dear Fellow Shareholders,

It gives me pleasure to inform you that the operating performance of the Company continues to be satisfactory. As you are aware, the expansion project to increase the refinery's capacity to 9 MMTPA has been completed and commercial production has commenced during this financial year. However, the profitability of the Company continued to be adversely affected, mainly due to large interest burden, low refining margins and low capacity utilisation.

During the year, the Company has exported products such as Motor Spirit (MS), Naphtha and Furnace Oil (FO) with the exports amounting to Rs.265 crores. In view of the export performance, your Company has been granted the status of "Star Trading House" by the Director General of Foreign Trade, Ministry of Commerce, Government of India. Your Company has also sold directly, the free trade products, namely Bitumen, FO, Naphtha, etc., amounting to Rs.360 crores during the year.

I am pleased to inform you that your refinery has now been granted ISO 14001 for Environmental Management Systems by Bureau of Indian Standards (BIS).

The Administered Pricing Mechanism (APM) in the petroleum marketing sector has been dismantled, with effect from April 1, 2002. Following this, retail prices of petroleum products such as MS and High Speed Diesel (HSD) are being set on the basis of market factors.

The Mangalore Hassan Bangalore pipeline project is expected to be completed by the end of this year. This will enable MRPL products to reach a wider market in the hinterland. Given the prevailing surplus supply position in the domestic market, the pipeline, when commissioned, will play a crucial role in enabling the Company to step up the evacuation (offtake) of its products.

As advised to you earlier, the Aditya Birla Group, one of the Promoters of your Company, had expressed its desire to exit from MRPL in an appropriate manner, and in terms of the MOU entered between the Government of India, HPCL and IRIL & its Associates.

Recently, the Aditya Birla Group has entered into a Share Purchase Agreement with Oil and Natural Gas Corporation Ltd. (ONGC) for the sale of their entire shareholding in the Company subject to the approval of Government of India.

The Financial Restructuring of your Company is in progress. This coupled with the entry of ONGC would result in the revival of health of your Company and will lead to improved prospects for the Company.

Yours Sincerely

M. C. Bagrodia
CHAIRMAN

Mumbai, 28th August, 2002

DIRECTORS' REPORT

TO THE MEMBERS

Your Directors present the Fourteenth Annual Report of your Company, together with the audited accounts for the financial year ended 31st March, 2002.

1. FINANCIAL RESULTS

(Rs. in Crores)

	Year ended 31st March, 2002	Year ended 31st March, 2001
Turnover	**5385.50**	2883.59
Profit before Depreciation, Interest and Tax	**287.83**	150.40
Interest and Finance Charges	**672.29**	237.83
Gross Profit/(Loss) after Interest but before Depreciation and Tax	**(384.46)**	(87.43)
Depreciation & Amortisations	**394.45**	173.44
Provision for Wealth Tax	**0.03**	0.03
Deferred Tax Credit	**286.46**	—
Extraordinary item	—	75.85
Profit/(Loss) after Tax	**(492.48)**	(185.05)

2. OPERATIONAL PERFORMANCE

During the year 2001-2002, your Company has processed 5.328 million tonnes (MMT) of crude oil (previous year 2.139 MMT), produced 4.906 MMT of finished products (previous year 1.974 MMT) and has despatched 4.822 MMT of finished products (previous year 2.163 MMT). The financial results continue to be impaired due to inadequate tariff protection and higher depreciation and interest burden. The profitability continued to remain adversely affected because of low Gross Refining Margins and low capacity utilisation mainly due to lower domestic demand of the products and low viability of exports.

A. V. Birla Group (AVB) one of the Promoters of your Company had desired to exit from MRPL in terms of tripartite MOU. However agreement could not be reached in the matter. In order to bring down high debt and interest burden and improve overall financial health, your Company has undertaken financial restructuring which is in progress. Since substantial additional funds are required to be infused for undertaking a financial restructuring, it was decided to invite some prospective investor who could infuse substantial additional equity required for completing the financial restructuring of your Company. The efforts in this directions are continuing and it is expected to frutify in the near future.

Your Company has become a potentially Sick Company as per provisions of the Sick Industrial Companies (Special Provisions) Act, 1985 on account of erosion of 50% of its peak net worth during the immediately preceding 4 Financial Years. The expected induction of a prospective investor and completion of financial restructuring will result in the revival of health of your Company.

3. EXPANSION PROJECT

The commercial production of your Company's expansion Project of increasing the crude oil refining capacity from 3 MMTPA to 9 MMTPA commenced from the close of 10th April, 2001. The operating streams coming from two phases and economies of scale are expected to improve MRPL's operational performance in time to come with the improved capacity utilisation.

4. MANGALORE HASSAN BANGALORE PIPELINE

The work on the 367 km. long MHB Pipeline, having a project cost of Rs.667 crores, is nearing completion and the 1st phase of the pipeline for transportation of products from Mangalore to Bangalore is expected to start by December 2002. As advised in the past, your Company proposes to contribute to the equity share capital of Petronet MHB Ltd. in due course.

5. CRUDE PROCUREMENT

Your Company continues to import significant portion of its crude requirements directly with the assistance of Chevron Texaco Global Trading, a Division of Chevron U.S.A. Inc. (Singapore Branch), an International Oil Major.

6. EXPORTS

Your Company exported products viz. Motor Spirit, Furnace oil, Naphtha worth Rs.265 crores during the financial year 2001-2002. Your Company has been granted status of "Star Trading House" by the Director General of Foreign Trade, Ministry of Commerce, Government of India based on its export performance.

7. MARKETING ARRANGEMENTS

Your Company continued to market the Motor Spirit, Diesel, LPG, Kerosene through its co-promoter HPCL. However, your Company has commenced direct marketing of free products from October 2000. Administered Pricing Mechanism (APM) in the petroleum sector has been totally dismantled w.e.f. 1.4.2002. For refineries APM was dismantled w.e.f. 1.4.1998. Post-APM, the retail prices of Petroleum Products are expected to be market determined. Your Company is eligible to market MS and HSD directly. The Management has yet to take a decision on starting marketing directly of the major products like HSD, MS, LPG, ATF/Kero. This is a step that will involve a large capital outlays, much of which will have to be by way of equity, in order to maintain a sound financial structure.

8. DIRECTORS

During the year, HPCL has nominated Shri D.S.Mathur as Chairman of MRPL Board. HPCL has also nominated Shri N.K.Puri (Director – Marketing of HPCL) on MRPL Board in place of Shri H.L.Zutshi w.e.f. 1.11.2001. The Board places on record its highest appreciation for Shri Zutshi for the guidance, support and valuable contribution made by him during his tenure as Chairman / Director of your Company.

In accordance with the provisions of Companies Act, 1956 and the Articles of Association of the Company, Shri P.Ramakrishnan, Director and Shri C.Ramulu, Director retire by rotation at the Fourteenth Annual General Meeting of the Company and being eligible offer themselves for re-appointment.

Shri S.T. Bambawale and Shri Girish Dave have been appointed as Additional Directors on the Board of the

Company w.e.f. 14.5.2002. They will hold office upto the date of the next Annual General Meeting of the Company and being eligible have offered themselves for re-appointment.

9. DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with the provisions of Section 217(2AA) of the Companies Act, 1956 your Directors state that :

a) The annual accounts have been prepared by following the applicable accounting standards together with proper explanation relating to material departures;

b) The Directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of financial year and of the Profit and Loss of the Company for that period ;

c) The Directors took proper and sufficient care for the maintenance of proper and adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

d) *The annual accounts are prepared on a going concern* basis.

10. FIXED DEPOSIT

The Company has not accepted any Fixed Deposits from the public.

11. DEBENTURES

Your Directors confirm that the proceeds of the 16% Partly Convertible Debentures (PCDs) and the 17.5 % Non-Convertible Debentures(NCDs) have been utilised for the purposes declared in the Prospectus dated 13th April, 1992. The last instalment of Rs.40/- in respect of 24488848 NCDs held by Institutional Debenture holders including A.V. Birla Group Companies due on 7.8.2001 has been rescheduled with the consent of all such Debenture holders and is now payable on 7.8.2003 with a revised interest rate of 16% p.a. However the NCDs held by the retail investors stands fully redeemed on 7.8.2001. The PCDs have also been fully redeemed by the Company on 31.7.2002.

12. AUDITORS

M/s. Lodha & Co., Chartered Accountants and M/s. Sharp & Tannan, Chartered Accountants, Statutory Auditors of the Company hold the office until the conclusion of the ensuing Annual General Meeting and are recommended for re-appointment. The Company has received a certificate from them that their appointment, if made, would be within the prescribed limits under Section 224(1B) of the Companies Act,1956.

13. CORPORATE GOVERNANCE

The Company has implemented the provisions of Clause 49 of the Listing Agreement relating to the Corporate Governance requirements. Annual Report contains a separate segment on the same.

Various Committees of the Board viz. Audit Committee, Investors' Grievance Committee have already started functioning to ensure commitment of the Board in managing the affairs of the Company in a transparent manner for maximising the shareholders' value in the long run.

In line with the said provisions, the Company has obtained the Certificate from the Auditors of the Company which is annexed to and forms part of the Annual Report.

The Management's Discussion and Analysis Report also forms a part of this segment.

14. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The additional information required to be disclosed pursuant to the Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosures of Particulars in the Report of Board of Directors) Rules, 1988 is given in the Annexure I forming part of this Report. MRPL has been awarded a Certificate of Merit by the Government of India in appreciation of the efforts in energy conservation, in the refinery sector for the year 2001.

15. PARTICULARS OF EMPLOYEES

There are no employees whose particulars are required to be shown in terms of the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

16. INDUSTRIAL RELATIONS

The industrial relations situation are peaceful and harmonious. During the year, the Company has signed an agreement with MRPL Employees' Union for a period of 3 years w.e.f. 1.4.2001.

17. COMMUNITY DEVELOPMENT

As socially concerned organisation, the Company is committed to the well being of the communities around the area. Various developmental activities taken up by the Company include formation and black toppings of roads, construction of primary health centre-cum-nurse quarters buildings, Anganwadi buildings, bus shelters, Samudaya Bhavan, providing drinking water supply schemes, desilting of open drains to avoid flood situation in the area, conducting free artificial Limb camps, Eye Camps, Dental Camps, Medical Camps etc. and distribution of scholarships to meritorious students. So far the Company has spent more than Rs.2.25 crores on these activities. MRPL CBSE School which gets a revenue grant from the Company, provides education at nominal cost to about 750 children out of which more than 600 are the children of villages around us.

18. ACKNOWLEDGEMENT

Your Company and its Directors wish to sincerely thank the Government of India, Ministry of Petroleum and Natural Gas, other Ministries, the Petroleum Planning & Analysis Cell, Government of Karnataka, New Mangalore Port Trust, your Promoter Companies and members of the oil industry for their excellent support and co-operation. The Company is also grateful to financial institutions and banks for their continuing assistance and co-operation.

Your Directors wish to place on record their sincere appreciation of the sustained and dedicated efforts put in by all employees. Your Directors sincerely thank the Shareholders and Debenture-holders for the confidence reposed by them in the Company and for the support extended by them.

For and on behalf of the Board

Place: Mumbai
Date: 31st July, 2002

D.S.Mathur
Chairman

ANNEXURE I TO THE DIRECTORS' REPORT

Information under Section 217(1)(e) of the Companies Act,1956 read with Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 forming part of the Directors' Report for the year ended 31st March, 2002

A. CONSERVATION OF ENERGY

a) Energy Conservation measures taken :

i) Recovery of heat from Hydrocracker 2, hot kerosene product to DM water (CPP deaerator makeup) resulted in fuel saving.

ii) Periodical monitoring of crude unit preheat-exchanger train performance by conducting temperature survey and rigorous exchanger simulations.

iii) Provision of NSU feed bottom exchanger for heating the feed in Crude Distillation block which saved fuel oil of the order of 880 tons per annum.

iv) Optimization of cooling water treatment cost by reducing cooling water losses by means of cascade blowdown.

v) Interconnection of Phase 1 and Phase 2 Medium Pressure steam header to prevent venting due to imbalance.

vi) Low Pressure condensate routing to Demineralised water tanks has reduced the consumption of Demineralised water by 2 Cu.m./hr in Hydrocracker unit.

vii) Controlling of excess hydrogen in Hydrocracker unit through smaller control valve has reduced flaring to near zero.

viii) Periodic monitoring of Steam trap performance and rectification has reduced the steam leaks.

ix) Routing of slopped splitter bottom in HCU back to Vacuum Gas Oil tank saving the reprocessing cost of the same in Crude Distillation Unit.

x) Modification carried out to improve vacuum in Phase 2 steam turbine generators thus saving 100 KWH of power in Power plant.

xi) Improvement in steam to fuel ratio to 15.54 ton/ton from guaranteed 15.27 ton/ton by better feed water heating in Power plant.

xii) Identification and attending leakage in the vacuum column chimney trays in Phase 1 and Phase 2 Vacuum distillation unit which helped in improving the yield and save approximately 8750 Mt of fuel oil per year.

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

i) Nitrogen circulation scheme in Hydrocracker HPNA system, to conserve Nitrogen.

ii) Advanced Process Control is proposed to be implemented in Crude Distillation Unit -1 for improvement in yields and reduction in energy consumption.

iii) Recovery of condensate from steam lines in refinery is being proposed.

iv) Conserving energy through introduction of variable speed drives for motors in pumps and fans is under implementation in Hydrogen block. Similar drives are being proposed to other plants also.

v) Replacement of Aluminum blades with FRP blades in fin-fan coolers.

vi) Use of special material for air-preheater tubes in Power plant which will last longer with lower flue gas temperature.

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

i) Anticipated savings due to the schemes already implemented, as per section "a" is approximately Rs. 1011 lacs/year, when operated at full load.

ii) Estimated savings due to the schemes to be implemented/proposed as per section "b" will be approximately Rs. 207 lacs/year, when operated at full load.

d) Total Energy Consumption and Energy Consumption per unit of Production:

	2001 - 02	2000 - 01
a) Power and Fuel Consumption		
1. Electricity		
a. Purchased		
Unit (KWH)	**3,317,531**	2,604,784
Total Amount (Rs.)	**27,398,948**	23,779,789
Rate / Unit (Rs./KWH) **	**8.26**	9.13
** Include Demand Charges of Rs.157.72 lacs (Previous Year Rs.146.06 lacs). The unit cost per KWH excluding Demand charges is Rs.3.50 for 01-02 and Rs.3.52 for 00-01.		
b. Own generation		
i) Through Diesel Generator (at Sarpady)		
Unit (KWH)	**119,550**	110,228
Unit per ltr. of Diesel (KWH/ltr.)	**3.40**	3.34
Cost / Unit (Rs. / KWH)	**5.04**	4.42

		2001 - 02	2000 - 01
	ii) Through Steam turbine / generator		
	Unit (KWH)	**376,565,300**	212,160,000
	Unit per ltr. of Fuel Oil (KWH/ltr.)	**2.09**	1.77
	Cost / Unit (Rs. / KWH)	**3.48**	4.82
2.	Fuel Oil		
	Quantity (M.T.) (Oil + Gas)	**376,538**	145,552
	Total Amount	**2,856,741,091**	1,298,999,825
	Average Rate (Rs./M.T.)	**7,586**	8,925
3.	Others / Internal Generation		
	Diesel (at Sarpady)		
	Quantity (K. ltr.)	**35.193**	32.973
	Total Cost (Rs.)	**602,856**	487,605
	Rate (Rs./K.ltr.)	**17,130**	14,788
b)	Consumption per unit production		
	Total Crude processed (TPA)	**5,476,995**	2,138,972
	Total Fuel Oil Consumed (TPA) ***	**434,293**	164,528
	Total Electricity (KWH)	**375,096,159**	210,196,372
	Fuel Oil Consumption / MT of crude processed	**0.0793**	0.0769
	Electricity Consumption / MT of crude processed	**68.49**	98.27
	*** includes fuel & loss		

2001-02 energy consumption and production figures take into account of both Phase 1 and 2 units, where as 2000-01 include for Phase 1 unit only.

B. TECHNOLOGY ABSORPITON

Research & Development (R&D)

1. *Specific areas in which Research & Development was carried out by the Company:*
   i) Crude assay determination.
   ii) Development of newer valuable products in the Laboratory.
   iii) Checking demulsifier performance with portable desalter.
   iv) Checking for newer properties like PAH in HSD.
2. *Benefits derived as a result of the above Research & Development:*
   i) Crude Assays provide the yield pattern and certain critical properties, which are essential for fixing the unit parameters.
   ii) Based on the Laboratory study, procedure for making certain new special products is finalised.
   iii) Optimisation of emulsifier consumption, better desalting efficiency and reduced corrosion in overhead section.
   iv) Monitoring of PAH's in diesel streams helps to select right crude and stream for producing and marketing Euro-III/ Bharat Stage-III emission norms complaint diesel fuel.
3. Future Plan of Action:
   i) To monitor Lubricity characteristics of Aviation Turbine Fuel and Low Sulphur High Speed Diesel (<0.05% Sulphur) with different sources of crude and operating conditions.
   ii) To evaluate catalysts characteristics and activity / performance through - Surface Area Measurements and metal analysis.
   iii) To monitor cooling and treated effluent water corrosion rates for effective use treated effluent and to evaluate suitable corrosion inhibitors.
4. Expenditure on R&D:
   Capital : Rs 13.50 lakhs spent in 2001-2002
   Rs 70.00 lakhs (estimated for 2002-2003)
   Recurring : Rs 10.00 lakhs
   Total R&D expenditure as percentage of total Turn over: - Negligible
5. Technology Absorption, Adoption & Innovation:
   i) Technology of all units has been absorbed fully, consequent to sustained training of technical personnel.
   ii) Special products like Reformate with stringent quality were made by proper adjustment of cut-points.
   iii) *Innovative methods of load shedding (during power / steam failure) have helped in avoiding total black out.*

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

	2001-2002 (Rs. in lacs)	2000-2001 (Rs. in lacs)
Foreign Exchange Earnings	**26,505.85**	36,927.06
Foreign Exchange Outgo (excluding imports of crude oil through canalising Agency)	**2,14,214.58**	3,89,667.11

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Structure and Developments

The Center for Monitoring Indian Economy (CMIE) has projected real GDP growth in 2001-02 at only 4.5%, down from the earlier revised forecast of 5.2%, as compared to growth rate of 6.4% in 1999-2000 and 6% in 2000-01. The reason for the slowdown in the economy was poor domestic demand, coupled with a global slowdown.

The Economic Survey 2000-2001 has enumerated a number of factors contributing to the slow down of industrial growth viz. lack of domestic demand for intermediate goods, low demand for capital goods, high oil prices, excess capacities in some sectors, adjustment lags inherent in industrial restructuring and infrastructural constraints in areas such as power, roads and transport, and high real interest rates due to continuing high fiscal deficits.

The economic slowdown persists, and oil demand still shows a negligible growth rate.

Oil imports during April 2001 to March 2002 were valued at 13669 Million USD, 12.7% lower in the corresponding period last year, due to lower volumes.

The consumption of petroleum products is highly correlated with economic activity. Hence, the stagnation in GDP flattened the demand for petroleum products. The domestic refinery capacity operated at 95% (Installed capacity 112 MMTPA) and there was a significant increase in oil product exports. Indian refineries continue to operate at lower capacity utilization rates.

The lower demand, together with surplus capacities and low and volatile refining margins, adversely affected the economics of the business. The sector also witnessed increased pressure due to demand for environmental friendly fuels (HSD & MS) and competition from alternate transportation fuels such as CNG. Many refineries have had to undertake huge capital investments in order to meet the demand for environmental friendly fuels.

Opportunities & Threats

The total deregulation of Petroleum Sector offers immense opportunities for the stand alone refinery like ours, which were hitherto fully dependent on the PSU Oil Marketing Companies (OMC) for marketing their major products. Integrating Refinery operation with Marketing, offers an opportunity for stand alone refineries to improve their bottom line.

The proposed implementation of stringent quality norms (BS II / Euro III) for transportation fuels (Green Fuels) by most of the states also offer excellent opportunity to your Company as your Company has a capability to make substantial quantities of the same already, with relatively lower additional costs.

The commissioning of Mangalore – Hassan – Bangalore pipeline will also provide economic access to the high demand hinterland areas in and around the refinery enhancing the opportunity to supply to economic supply zone.

The operations of the refinery will continue to be substantially affected by the volatile crude and product prices in the international market. This coupled with the likely surplus capacity in the country in near future and low demand growth rate for middle distillates is likely to pose some threat to your Refinery.

Substantial Capital investments required for setting up Retail Marketing infrastructure especially for the Transportation fuel is likely to pose significant challenge to the proposed marketing plans of the Company.

Outlook

Complete deregulation of the petroleum sector was brought about through a dismantling of the Administered Pricing Mechanism (APM), effective 1st April, 2002. Prior to this, the prices of petroleum products were fixed by the Petroleum Ministry, through Oil Co-ordination Committee (OCC), on import parity basis. Post-APM, the industry will be governed by market forces. As per the new policy, the Indian oil sector stands completely deregulated.

Petroleum products are critical inputs across many industries. With the economy opening up to international competition, these inputs should be made available at competitive prices.

Under the deregulated scenario, every oil Company will have to strengthen its marketing activity, particularly since the commissioning of new capacities has created temporary surpluses. As of now, the Company markets a major portion of its production through Hindustan Petroleum Corporation Limited, one of the co-promoters of MRPL. The Company may have to consider alternative marketing strategy to face the challenges of deregulated scenario.

Notwithstanding the current drop in demand, the potential for the oil sector remains positive as India's per capita consumption of petroleum products is one of the lowest in Asia.

Internal Control Systems and their Adequacy

The Company has adequate internal control systems and procedures. The Company's comprehensive system of internal controls ensures optimal use of the Company's resources. The Company's internal audit department conducts regular audits of various operational and financial matters. The audit observations are periodically reviewed by the Audit Committee of the Board of Directors and significant issues are brought to the attention of the Audit Committee.

Discussion of financial performance

The refinery at Mangalore achieved a crude thruput of 5.328 MMT during the year and produced 4.906 MMT of finished products.

Sales turnover during the year was Rs. 5385.50 crores, compared to Rs.2883.59 crores in 2000-2001. Net sales increased by 86.8% on a comparable basis. The turnover for the year includes direct exports amounting to

Rs.265.06 crores (approx.). Profitability was considerably affected on account of inadequate tariff protection and higher interest and depreciation costs. The higher interest costs were due to a higher level of borrowings. Other factors such as low GRMs, low capacity utilisation and low export prices also contributed to the downturn in profitability.

Your Company achieved its highest ever monthly thruput since inception of 679112 MTs in the month of March 2002.

Developments on the Human Resources / Industrial Relations front

The Company continues to have a cordial and harmonious relationship with its employees. During the year, the Company signed an Agreement with the MRPL Employees' Union for a period of three years - from 1.4.2001 to 31.3.2004. MRPL has achieved a record of 636 accident-free days without reportable lost time injuries.

The Company believes that human resources are the vital asset for giving the Company a competitive edge in a competitive business environment. The Company's philosophy is to provide to its employees a congenial working environment and a performance-oriented work culture. Regular training programs are being organised at the Company's training center, aimed at developing the knowledge and skill levels of the employees.

The Company had 933 employees as on 31st March, 2002.

Segment wise or product wise performance

Your Company is engaged in refining crude oil and all the activities of your Company revolve around this business. The operations are mainly in India. Your Company markets its products through HPCL excepting few products viz. Bitumen, Naphtha, Fuel Oil which are directly marketed by your Company. Direct sales of such products during the year were 379102 MTs valuing Rs.360 crores. Your Company has exported 424244 MTs of Fuel Oil, Motor Spirit and Naphtha valuing Rs.265 crores during the year.

Risks & Concerns

The Company derives almost 95% of its sales revenue from the domestic market. Hence, its performance is closely tied to developments in the overall economy.

Post-APM, your Company is exposed to the vagaries of the market. As a result, margins would fluctuate in line with movements in international crude/oil products prices. A significant slowdown in the global markets may also adversely affect the demand-supply dynamics of the global petroleum industry.

RBI recently accepted the demand of the petroleum companies to allow Margin (Crack) hedging to the extent of contracted import commitment. This will help oil companies -in particular, stand-alone refining companies like your Company to benefit from hedging of refinery margins.

Management has yet to take a decision on starting marketing directly of the major products like HSD, MS, LPG, ATF/Kero. This is a step that will involve a large capital outlays, much of which will have to be by way of equity, in order to maintain a sound financial structure.

Post APM, the Oil Industry has been operating on the basis of an Industry Logistic Plan (ILP) for a period of two years i.e. 2002-03 and 2003-04, for evacuation of products like Petrol, Diesel, Kerosene from the Indian Refineries. In the ILP, evacuation ex-MRPL products has been considered at a capacity of 6 MMTPA, thus making it imperative for the Company to utilise its balance capacity by resorting to exports which is leading to lower realisation. The Company has represented for revising the evacuation plan based on its installed capacity of 9 MMTPA.

Cautionary Statement

Details given hereinabove relating to various activities and future plans may be "forward looking statements" within the meaning of applicable laws and regulations. Actual performance may differ from those expressed or implied.