MRPL

REFINING WITH A DIFFERENCE

20th

Annual Report 2007-2008

ONGC
एम आर पी एल
MRPL

Mangalore Refinery And Petrochemicals Limited
(A subsidiary of Oil & Natural Gas Corporation Ltd)

Mangalore Refinery and Petrochemicals Limited
20th Annual Report

BOARD OF DIRECTORS

Shri R. S. Sharma	Chairman
Shri R. Rajamani	Managing Director
Shri L. K. Gupta	Director (Finance)
Dr. A.K. Balyan	Director
Shri N. K. Mitra	Director
Shri V.K. Dewangan	Director
Shri Vivek Kumar	Director
Shri S. Roy Choudhury	Director
Shri G. M. Ramamurthy	Director
Shri V. P. Singh	Director

COMPANY SECRETARY
Shri B. Sukumar

REGISTERED OFFICE AND REFINERY SITE
Mudapadav, Kuthethoor, P.O. Via Katipalla,
Mangalore - 575 030, Karnataka
Tel. No.: 0824-2270400
Website: www.mrpl.co.in

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AUDITORS
M/s. S.R.R.K Sharma & Associates,
Chartered Accountants

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

BANKERS
State Bank of India,
Canara Bank,
Punjab National Bank,
Bank of Baroda,
Corporation Bank,
United Bank of India,
Citibank N.A.

INVESTOR RELATIONS DEPT.
Maker Tower, 'F' wing, 16th Floor,
Cuffe Parade, Mumbai - 400 005.
E-mail : investor@mrplindia.com
Tel.: 022-2217 3000, Fax : 022-2217 3256

REGISTRAR AND TRANSFER AGENTS
M/s. MCS Ltd.
Office No. 21 & 22, Ground Floor,
Kashiram Jamnadas Building
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DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2007-08

Dear Members,

Your Directors are pleased to present the 20th Annual Report of the Company, together with the audited accounts for the financial year ended 31st March 2008.

It is a matter of immense satisfaction that the performance of your Company has reached new heights of excellence during the year under review:

- **Highest-ever capacity utilization at 130 %.**
- **Highest-ever Refinery crude thruput at 12.55 MMT**
- **Highest ever accident free operation days-1301 days-reached on 03.07.2007.**
- **Highest ever Turnover at Rs.37,339 crores**
- **Highest ever Net Profit after Tax at Rs.1,272 crores**

1.1 *FINANCIAL PERFORMANCE*

(Rs. in Crore)

	Year ended 31st March, 2008	Year ended 31st March, 2007
Turnover	**37,339.12**	32,208.13
Profit before Depreciation, Interest and Tax	**2,258.59**	1,658.34
Interest and Finance Charges	**147.59**	214.53
Gross Profit after interest but before Depreciation and Tax	**2,111.00**	1,443.81
Depreciation and Amortisations	**377.82**	354.86
Provision for Wealth Tax	**0.28**	0.14
Current Tax and Fringe Benefit Tax	**584.25**	72.35
Previous Year's Tax adjustment	**118.95**	29.12
MAT Entitlement Credit receivables adjusted	**(174.35)**	-
Deferred Tax	**(68.18)**	461.82
Profit after Tax	**1,272.23**	525.52
Balance of Profit/(Loss) brought forward from previous year	**645.94**	284.48
Balance available for appropriation	**1,918.17**	810.00
Appropriations:		
Proposed dividend on Preference Shares (Rs. 9,186)	**0.00**	0.00
Proposed Dividend on Equity Shares (12%)	**210.35**	140.23
Tax on Dividend	**35.75**	23.83
Transfer to General Reserve	**31.90**	-
Balance carried to Balance Sheet	**1,640.17**	645.94
Total	**1,918.17**	810.00

1.1.1 Your Company has achieved a turnover of Rs. 37,339 Crore (up 16% from Rs. 32,208 Crore), earning a net profit of Rs. 1,272 Crore (up 142% from Rs.525 Crore).

1.2 DIVIDEND

Considering substantial improvement in performance, and also keeping in view the large requirement of funds for the Phase III Refinery project, the Board of the company has decided to recommend higher dividend of 12% (previous year 8%) on the equity shares which will absorb Rs. 210 Crore excluding Rs.36 Crore as tax on dividend.

1.3 OPERATIONAL PERFORMANCE

During the financial year 2007-08, the refinery processed a record throughput of 12.55 Million Metric Tonne (MMT) crude oil (12.54 MMT) achieving 130% capacity utilisation (129%). It despatched 11.83 MMT (11.44 MMT) of finished products.

1.4 EXPORTS

The exports of petroleum products (Motor Spirit, Naphtha, Reformate, Mixed Xylene, ATF, HSD, VGO and FO) during the year amounted to Rs. 11,141 Crore against Rs.11,615 Crore in the previous year, which is about 41 % (previous year 47%) of the total dispatches of 11.83 MMT. Mixed Xylene is a new value-added product, which is being produced from the Mixed Xylene unit, which became operational last year. MRPL is now one of the Eight Companies in Western Zone having Premier Trading House status granted by Director General of Foreign Trade (DGFT) Government of India.

1.5 ENVIRONMENT MANAGEMENT

In Environment Management, the company's Philosophy is to perform 'beyond Compliance' - that is perform better than minimum required by statutes. The Refinery is certified with ISO 14001: 2004 for Environment Management Systems. The major Achievements include:

- 70-75% of the total treated Effluent is recycled back to the Cooling towers.
- The Company is meeting the stipulations of KSPCB with regard to quality of treated effluent, which is well below the standards in every aspect, on a continuous basis.
- A Bio Gas plant has been commissioned for generating Biogas and manure using canteen and colony waste, and the generated biogas is being used in the canteen burners for substituting LPG as fuel.
- Innovative methods of solid waste reduction have been carried out by using Bioremediation process.
- SOX and NOX emissions to ambient air are well below the standards stipulated by pollution control board, the monitoring of which in and around the refinery, is being done by M/s. National Institute of Technology, Karnataka.
- Gauge pole socks and Secondary seals are being installed in floating roof tanks for reducing fugitive emissions. Wherever they have been installed emission have reduced significantly (95% reduction with gauge pole socks and 50% reduction with secondary seals).
- Low sulphur Fuel oil with less than 1% sulphur is being used in all the Refinery furnaces and boilers simultaneously. Maximizing the usage of ultra low sulphur fuel gas generated in the refinery process units.
- A fortnightly Marine Environment Impact Assessment study is being carried out through the College of Fisheries from 7 Monitoring stations, set-up in the vicinity of Treated Effluent Disposal point (at sea) & 3 Stations on the Seashore. The monitoring of Flora and Fauna, Studies on Phytoplankton, Zooplankton & Benthic Organisms in the Ocean are being conducted. Study on Bioaccumulation of Heavy metals in Marine Organisms are also conducted twice every year.
- Ten Nos. of Ground Water Monitoring stations in and around the Refinery have been set up and regular monitoring of the ground water quality is being carried out along with KSPCB.
- Volatile Organic Compound Emission was checked at 33,000 points in the refinery through an External agency and corrective measures are being taken to effectively minimize the same, wherever needed.

- Work Environment Study was conducted by CLI (Central Labour Institute) and employees were sent for medical check up and found to have no adverse effect.
- Special health check-up is being carried out for employees working in high noise and dust area and in units where Benzene is present.

1.6 MARKETING

1.6.1 Direct Marketing :

Direct marketing sales of the Company continued their growth during the year 2007-08. The Direct Marketing Sales were at Rs. 2,137.35 Crore up by 10.82% from Rs. 1,928.64 Crore in the previous year. MRPL retained its market leader position with respect to sale of Bitumen in its refinery zone.

The Product Supply agreement with State Trading Corporation (STC), Mauritius entered into last year for supply of Petroleum Products (Petrol, Diesel, ATF and Fuel Oil) for a year was renewed for a further period of three years (August 2007 to July 2010). The agreement signed on 6th July, 2007 is for supply of one Million Metric Tonnes of Petroleum products per annum and is a testimony of the timely supply of quality products from the Refinery. Mauritius imports the entire need of the above petroleum products of the country from MRPL only.

Crumb Rubber Modified Bitumen (CRMB) sales recorded a growth of 109.95 % with sales of 14,602 MT during 2007-08, as against sales of 6,955 MT during 2006-07. The customer base for Bitumen and CRMB has grown considerably with inroads made in all States adjoining Karnataka.

MRPL continued to follow non-aggressive and cautious approach in developing High Speed Diesel (HSD) consumer market due to prevailing under-recovery in sales of Diesel. Three satellite depots at Kasargod (Kerala), Hosur (Tamilnadu) and Hindupur (Andhra Pradesh) were commissioned during the year to facilitate and support marketing activities in States adjoining Karnataka.

1.6.2 Retail Marketing:

MRPL entered the retail segment with its first "HiQ" retail outlet at Maddur in Karnataka State on 12th January, 2008 inaugurated by the Secretary, MoP&NG, Government of India. In order to enhance the non-fuel income and to attract more customers to the retail outlet, MRPL has already tied up with Baskin Robbins Ice-cream Parlor, Café Coffee day, etc. MRPL and Corporation Bank, signed a Memorandum of Understanding (MOU) on 26th February 2008 to leverage their respective strengths to provide a wholesome bouquet of services to customers in the fuel retail segment. Corporation Bank will set up ATMs at the MRPL HiQ retail outlets coming up across Karnataka and other Southern States, to provide banking facilities for customers on the move. Also being proposed are other value-added financial products, including co-branded credit and fleet cards, cashless transactions using smart cards for the agricultural community etc. Although the Company has approval from the Govt. of India to set up 500 retail outlets across the country, it is proceeding cautiously in setting up the retail outlets in view of the heavy under recoveries in retail marketing of transportation fuels, (Petrol & HSD), as the Govt. has decided to compensate for under recoveries only to IOC/BPC/HPC. Further MoP&NG (the Administrative Ministry) has also recently directed the company to put on hold setting up of new retail outlets for a period of two years.

1.6.3 Under-recoveries:

Your company had been representing to MoP&NG for compensating the Company for the under-recoveries being sustained in direct sale of HSD to Railways, State Road Transport Corporations and other large consumers and had appealed that MRPL should be treated on par with other PSU OMCs. However, the Govt. did not accede to the request of the company, due to which the company had to take steps to reduce these supplies, since April, 2008 to restrict heavy under recoveries on these sales.

1.6.4 Joint Venture in Marketing:

MRPL and Shell Gas B. V., Netherland entered into a Joint Venture agreement on 5th Feb 2008 to form a joint venture company "Shell MRPL Aviation Fuel and Services Private Limited" for marketing of Aviation Turbine Fuel (ATF) to both Domestic and International airlines at Indian airports. The Promoter Companies will bring in respective services and strengths together to the JV. MRPL will bring its expertise and high quality products and Shell Aviation will bring its global brand, network and customer base in addition to stringent quality control procedure. The JV will initially commence its marketing operations at Mangalore, Bangalore and Hyderabad airports and later will extend its operations all over India in due course. This JV between MRPL and Shell in the field of aviation fuel will offer the best quality of aviation fuel and other related services at the most competitive price.

You will be glad to know that MRPL has received permission of Airport Authority of India for supply of ATF to Airlines/ operators through mobile refuellers at Mangalore Airport.

2. AWARDS AND RECOGNITIONS

The following awards/ recognitions were received during the year:

i) First Prize in the prestigious "Jawaharlal Nehru Centenary Award for Energy conservation in refineries" for the year 2006-07, received on 20th September, 2007 instituted by the Ministry of Petroleum & Natural Gas (MoP&NG), for the fourth consecutive year. The award is based on the annual energy performance of the refinery measured in terms of energy index for specific complexity (MBTU/Bbl/ NRGF or MBN).

ii) "Energy Efficient Unit Award" from CII (Confederation of Indian Industry) at the National Award for Excellence in Energy Management 2007 on 13.09.2007.

iii) "Certificate of Merit" from Karnataka Renewable Energy Development Limited for 2006-07. This award has been conferred for the second time in succession for MRPL's lowest Specific Energy consumption figures, various Energy conservation measures implemented during the last three years and our organizational set up & commitment towards Energy conservation.

iv) National Safety Award for 2006 under Scheme II from the Directorate General Factory Advice Service & Labour Institutes, received on 16th August, 2007. Ministry of Labour and Employment, Government of India.

v) ISO/ IEC 17025: 2005 accreditation by NABL (National Accreditation Board for testing and calibration Laboratories), Department of Science and Technology, Govt. of India to MRPL's quality control Lab on 24.09.2007.

3. CREDIT PROFILE

i) CRISIL has reaffirmed the domestic corporate credit rating of "CCR AAA" (Pronounced as "CCR Triple A") to MRPL after due surveillance valid for a period of one year. This rating indicates highest degree of strength with regard to honouring debt obligations.

ii) ICRA Limited has also reaffirmed Issuer Rating "IR AAA" (Pronounced as "IR Triple A") to MRPL. This rating indicates the highest credit quality and lowest credit risk of MRPL.

iii) ICRA has also reaffirmed the 'A1+' rating to the company's short-term borrowings including commercial paper. This rating indicates that these instruments carry lowest credit risk.

iv) MRPL had been ranked 7th in BT 500 (16th December, 2007) rating based on Turnover for the year 2006-07.

4. **PROJECTS**

4.1 **Phase III Refinery Project :**

As you are aware that the Company is implementing Phase III Refinery Project at a cost of Rs.7,943 Crore. This will enhance the refining capacity from the existing 9.69 MMTPA to 15 MMTPA and also increase the distillate yield (Petrol, Diesel, LPG, Propylene, Naphtha etc.) by about 10% eliminating the low value Black Oil (FO/ Bitumen) even while using more of low Price High Sulphur Heavy oils and high-acid crude oils. Selection of Licensors for Process Technologies for major units has been completed. M/s. Lummus Technologies Inc, US for Delayed Coker Unit (DCU), M/s. Axens, France for Diesel Hydrotreater (DHT), M/s. Shaw Stone & Webster, US for Petrochemical Fluid Catalytic Cracking Unit (PFCC) and M/s UOP LLC, US for Heavy Coker gas oil Hydrotreating unit (CHT) have been selected. All the agreements in this regard have been signed with the Licensors and work on Process and Engineering Packages is in progress. SIA approvals from Department of Industrial Policy & Promotion, Ministry of Commerce & Industry, Government of India, have been received for all these foreign technology collaborations.

Ministry of Environment and Forests, Government of India has since issued Environmental Clearance for the project. Consent for establishment from KPCB separately for Phase-III Refinery Project is expected shortly.

Global Tenders for Invitation of Bids on LSTK basis, for all Major non Licenced Units like new CDU/VDU, Hydrogen unit, Captive Power Plant, Tankages are under finalisation. Govt. of India vide its notification no.66/2008 dt.30th May,2008 has notified the Phase-III refinery project of the company eligible for Income tax exemption under section 80 IB(9) of The Income Tax Act, subject to fulfilling the conditions stipulated therein.

The delayed receipts of the Environmental/ Pollution Clearances coupled with over stretched order book position of licensors & contractors will lead to time & cost overruns although all out efforts are being made to minimize the impact.

4.2 **Rajasthan Refinery**

As earlier informed, the establishment of a 7.5 MMTPA Refinery at the wellhead at Barmer would largely depend on the availability of crude oil from Rajasthan blocks at an economically viable price as well as adequate fiscal incentives from the State Government, for which the company is still in discussion with Rajasthan State Government.

4.3 **Acquisition of Nitrogen Facilities**

You will be glad to know that Your Company has acquired the Nitrogen manufacturing facilities (Nitrogen Unit) from M/s. Essel Mining Industries Limited (EMI) (formerly Hindustan Gas Industries Ltd.) located in the close proximity of our Refinery at Mangalore for Rs. 6.43 crores, based on the valuation carried out by SBI Capital Markets Ltd. (A subsidiary of State Bank of India).

Pursuant to this acquisition, the Nitrogen Unit, alongwith all its assets and liabilities were brought into MRPL and were suitably integrated with the refinery. Eleven employees of EMI also became part of the MRPL family. Considering the fact that EMI Nitrogen unit was dedicated to MRPL alone, the above acquisition is of strategic importance to MRPL, in terms of supply security and quality of Nitrogen which is a critical utility for smooth operation of the Refinery.

4.4 **JOINT VENTURE PROJECTS**

4.4.1 **Aromatics Complex**

As already reported last year, a separate Company promoted by ONGC and MRPL in the name of ONGC Mangalore Petrochemicals Ltd. (OMPL) has begun implementation of the Aromatics Project, estimated to cost about Rs.4852 Crore, to produce Paraxylene and Benzene value added products, using Naphtha feed stock from MRPL. ONGC will contribute 46% equity (Rs.744 Crore) while MRPL will have 3% equity (Rs.48 Crore). M/s. Toyo Engineering India Ltd., have been appointed as Project Management Consultant (PMC) in February, 2007. Mangalore SEZ Ltd. (MSEZ) have allotted 454 acres of land to OPML. M/s. UOP - USA have been selected as process licensor. SIA approval has been obtained for this Foreign Technology Collaboration. SBI Capital Markets Ltd. (SBI Caps) have been engaged as advisors to finalise Long Term product offtake agreement for Paraxylene and Benzene.

4.4.2 **Kakinada Refinery and SEZ**

As earlier reported, the financial appraisal report submitted by SBI Capital Market for the Kakinada Refinery, showed that 7.5 MMTPA Refinery Project was not financially viable. Engineers India Ltd. (EIL) were thereafter engaged to conduct a Techno Economic Feasibility Study for setting up 15 MMTPA Refinery. EIL has since submitted the Draft Feasibility Report. Independent Financial appraisal was entrusted to SBI Caps, who have also submitted the Draft Appraisal Report. These draft reports are presently being reviewed and a final decision for implementation or otherwise will be taken shortly. As already informed KSEZ has been notified by Govt. of India in April, 2007 and master planning of SEZ is in progress.

5. **CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:**

The additional information required to be disclosed pursuant to section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Directors) Rules, 1988 is given in 'Annexure - I' which forms part of this Report.

6. **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.

7. **HUMAN RESOURCES**

7.1 The Long Term Agreement with the Employees Union came to an end on 31st March 2007. Negotiations with the employees for a fresh long term settlement are in progress.

7.2 Your company has completed the exercise of aligning the pay scales of management employees with other PSU Oil Companies scales in line with Department of Public Enterprises' Guidelines with effect from 06.01.2005 i.e., the day when MRPL was declared a Schedule 'B' PSU. Similarly, the perquisites applicable to downstream Oil Sector PSUs are being introduced by the company in phases and during the year under review about sixteen new / amended HR Policies have been introduced for the employees.

7.3 In order to mitigate the hardships being faced by the employees pending revision of Pay Scales for Management employees due from 01.01.2007 and due from 01.04.2007 for Non-management employees, the company gave adjustable ad-hoc relief to employees as advance, in line with the similar payments made by other Oil PSUs.

7.4 The company continued to enjoy cordial and harmonious relationship with its collectives.

8. OFFICIAL LANGUAGE:

8.1 MRPL is promoting Official Language Policy as per the Annual Programme given by the Department of Official Language, Ministry of Home Affairs, Government of India.

8.2 In order to promote use of Hindi among the employees, Hindi Workshops have been conducted on a regular basis at Mangalore, Mumbai & Bangalore Offices. Similarly, to create Hindi awareness, Hindi Week was celebrated and many Hindi competitions were held.

Hindi computer seminar was organized in the month of August 2007 for the Town Official Language Implementation Committee (TOLIC) members. To enable correspondence in Hindi, by the employees, computers are installed with Hindi software APS 2000++. MRPL participated at TOLIC level Hindi competitions and won nine prizes and stood II at TOLIC level competition at Mangalore. Hindi Hasya Kavi Sammelan was organized with the participation of seven poets of national repute in the month of March 2008.

9. VIGILANCE FUNCTION:

A series of initiatives taken by the Vigilance Department have led to increased transparency and the commencement of e-auctioning. First e-auction of the scrap material was carried out on 9.10.2007. In respect of e-procurement, Application Service Provider for e-tendering has been appointed. The Vigilance Department conducted Vigilance Awareness Programme at Mangalore, Mumbai and Delhi offices. The Vigilance Awareness Week was organized from 12.11.07 to 16.11.2007 in all the offices during which the importance/ relevance of vigilance function was impressed upon in the context of good corporate governance. In an effort to ensure smooth business and transparency, a vendors' meet for chemicals and catalyst suppliers was held during the year.

10. CORPORATE SOCIAL RESPONSIBILITY (CSR) INITIATIVES

10.1 As a socially responsive organisation, your Company is committed to the well being of the communities around the refinery area.

10.2 As an endeavour to empower women, the company took lead in organizing a skill development programme for women from surrounding villages who were trained in tailoring & stitch craft. A skill development center for women from fishermen community under women empowerment programme has been also built. As a measure of goodwill to the project- displaced families, the company is also providing a overhead water tank to ease the drinking water problem of the rehabilitation colony. The internal roads of this colony are being asphalted.

10.3 Your company has donated one laser and one dialysis machine to Government Wenlock District Hospital, Mangalore and necessary Medical Equipment to the maternity ward of the Government Ladygoshan Hospital for women in Mangalore. We have constructed one Samudaya Bhavan at Sarpady from where we are drawing raw water from river Nethravathi.

10.4 Your Company has taken an initiative to develop a beautiful Public Park in Kadri, and in providing Mid Day meal to the children of 11 schools covering 2,600 students, in association with ISKON Mangalore. To educate regarding the water conservation and preservation among school children, Rain Water Harvesting Projects have been implemented in five schools of neighbouring villages. With a view to provide better education to Government School children, the company has provided Teaching Aids, Sports Materials, benches & desks, water coolers to 70 schools of neighbouring villages. Your Company has been providing scholarship assistance to students securing first two ranks in all the classes of the above schools. The total amount spent during the year on CSR initiatives amounted to Rs.151.16 lakhs as compared to Rs.40.92 lakhs during the previous year.

10.5 Your Company has committed to take part in the establishment of a Children's Paediatric ward, with all modern diagnostic instruments and facilities in Government Wenlock Hospital, Mangalore.

11. DIRECTORS

11.1 The President of India appointed Shri Vivek Kumar, Director, MoP&NG as a Government director and accordingly Shri Vivek Kumar was appointed as an additional director on the Board of Company w.e.f. 29/10/2007.

11.2 Shri V. P. Singh an Independent Director on the Board of ONGC was appointed as an additional director on the Board of the Company w.e.f 29/10/2007 pursuant to the Corporate Governance Guidelines issued by the Department of Public Enterprise requiring appointment of one of the Independent Directors of the holding company, on the Board of its subsidiary company.

11.3 In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company, Shri Vivek Kumar and Shri V. P. Singh shall hold office upto the date of the Annual General Meeting (AGM). The Company has received notice from the shareholders proposing their names to the office of the Directors at the ensuing Annual General Meeting.

11.4 Shri N.K.Mitra, will retire by rotation at the 20th Annual General Meeting of the Company. Shri N.K.Mitra, being eligible, offers himself for re-appointment.

11.5 Brief resumes of the Directors seeking appointment / re-appointment, together with the nature of their expertise in specific functional areas, the names of the companies in which they hold the directorship and the membership / chairmanship of committees of the Board, and shareholding in the Company as stipulated under Clause 49 of the Listing Agreement with the Stock Exchanges are given in the Annexure to the AGM notice.

11.6 The Company continues to pursue with the Government of India (Ministry of Petroleum & Natural Gas) for appointment of the Independent Directors which are required to be appointed on the Board of the Company pursuant to the Listing requirements.

12. DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirement under Section 217 (2AA) of the Companies Act, 1956 with respect to Directors' Responsibility Statement, it is hereby confirmed that;

i) In the preparation of the Annual Accounts the applicable Accounting Standards had been followed and there are no material departures from the same;

ii) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable & prudent so as to give a true and fair view of the state of affairs of the Company as at the 31st March, 2008, and of the Profit & Loss of the Company for the year ended on that date;

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; and

iv) The Directors have prepared the Annual Accounts on a "Going Concern" basis.

13. FIXED DEPOSIT:

The Company has not accepted any fixed deposit during the year from the public.

14. AUDITORS

14.1 M/s. SRRK Sharma & Associates, Chartered Accountants were appointed as Statutory Auditors of the Company for the Financial Year 2007 - 08 by Comptroller & Auditor General of India (C&AG).

14.2 The Report of the C&AG at Annexure - II forms part of this Report.

15. CORPORATE GOVERNANCE

15.1 The Company has complied with all the mandatory provisions of Clause 49 of the Listing Agreement relating to the Corporate Governance requirements, except with the requirement of Independent Directors on the Board of the company. Your company is pursuing with the Administrative Ministry, MOP&NG for appointment of the Independent Directors on the Board. The Annual Report contains a separate section on Corporate Governance.

15.2 Your company is listed with the Bombay Stock Exchange Limited and National Stock Exchange Limited

15.3 As required under Clause 49 of the Listing Agreement with Stock Exchanges, your Company has obtained the Certificate from the Auditors of the Company, for compliance of Corporate Governance pursuant to Clause 49 (VII) (1) which is annexed to and forms part of the Annual Report.

15.4 The Management Discussion and Analysis Report forms part of the Annual Report.

16. ACKNOWLEDGEMENT:

16.1 Your Directors sincerely thank the Government of India (GOI), Ministry of Petroleum and Natural Gas (MOP&NG), Ministry of Finance, Ministry of Shipping and other Ministries and Departments of the Central Government and the State Governments of Karnataka, Andhra Pradesh and Tamilnadu for their valuable support and co-operation.

16.2 Your Directors gratefully acknowledge the support and direction provided by the parent company, ONGC.

16.3 Your Directors appreciate the continuing co-operation and support received from New Mangalore Port Trust, Financial Institutions, Banks and all other stakeholders such as suppliers of crude oil and other inputs, vendors, contractors, transporters and others.

16.4 Your Directors express their sincere thanks to all the shareholders for their continued confidence shown in the Management and the Company.

16.5 Your Company recognizes its valued customers for their continued patronage for the products of the company.

16.6 Your Directors wish to place on record their appreciation for the total commitment shown by each and every one of the employees of the Company without whom, it would not have been possible for the company to scale the newer heights year after year.

For and on behalf of the Board

Place: New Delhi
Date: 20th June, 2008

(R. S. SHARMA)
Chairman

ANNEXURE I TO THE DIRECTORS' REPORT

A) CONSERVATION OF ENERGY

Company continued its emphasis on energy conservation through operational optimization, continuous monitoring and implementation of several energy conservation schemes

a) Major energy conservation measures taken during the year

i) Condensate Recovery scheme commissioned in Captive Power Plant (CPP) for recovering hot condensate.

ii) Advanced Process control system under implementation in phase 2 Crude Distillation Unit.

iii) On-line cleaning of Furnace tube external surface carried out by chemical spraying in the Vacuum heater of phase 2 Crude Distillation Unit.

iv) Double seals were provided for ten more existing floating roof tanks & Gauge pole sock were provided for two floating roof tanks, thereby reducing fugitive emissions.

v) 25 Solar powered traffic signal & lighting installed in the company & township

vi) Continued Antifoulant injection in Crude Distillation Unit-1, to minimize heat exchanger fouling rate, thus improving heat recovery over the period.

b) Additional investments and proposals, if any, being implemented/ under consideration for reduction of consumption of energy / resources

i) Crude distillation unit -1 Short Residue heat recovery by heating internal fuel oil.

ii) Condensate heat Recovery in Crude & Hydrocracker units.

iii) Hydrogen Recovery from Refinery off-gas streams and PSA tail gas streams.

iv) Providing automatic water draining facility in crude storage tanks.

v) Vapor recovery from Naphtha loading stations

vi) Hydrogen recovery from Refinery off-gas streams & PSA tail gas streams.

vii) Solar Lighting system

c) The measures (a) above resulted in Energy consumption reduction by 2,625 MT/Year & Yield improvement by 16,800 MT/year which is equivalent to a net savings of approx. Rs.133 Million/year. The expected investment for measures (b) above is around Rs.440 Million.

d) Fuel & Loss (F&L) in the Refinery for the year 2007-08 was 6.72%, whereas it was 6.53% in 2006-07. F&L is comparatively higher in this year on account of operation of additional units such as Light Naphtha Isomerisation Unit for cleaner fuel (Petrol) production & Mixed Xylene Unit, for producing Mixed Xylene, which is a value added product. However, the Energy index (MBTU/BBL/NRGF) is lower at 61.55 for the year 2007-08 as compared to 63.13 for the year 2006-07, in spite of higher complexity operation.

e) Energy Conservation award

MRPL has won the First Prize in the prestigious 'Jawaharlal Nehru Centenary Award for Energy conservation in refineries' for the year 2006-07, instituted by the Ministry of Petroleum & Natural Gas (MoP&NG) for the fourth consecutive year. The award is based on the annual energy performance of the refinery measured in terms of energy index for specific complexity (MBTU/Bbl/NRGF or MBN).

MRPL's Energy performance during the last five years is as follows

Year	Crude throughput, MMTPA	NRG factor (CHT method)	MBN(MBTU/ Bbl/NRGF)
2007-08	12.54	5.567	61.55
2006-07	12.53	4.926	63.13
2005-06	12.12	4.889	64.84
2004-05	11.85	4.922	64.77
2003-04	10.07	5.05	69.00

FORM - A

Total Energy consumption and Energy consumption per unit of production:

	2007-08	2006-07
A) Power and Fuel Consumption		
1. Electricity		
a) Purchased		
Unit (Million KWH)	3.73	3.84
Total Amount (Rs. Million)**	27.04	27.28
Rate / Unit (Rs./KWH) **	7.25	7.11

** Includes demand charges of Rs. 9.99 Million (Rs.9.99 Million for2006-07). The unit cost per KWH excluding Demand charges is Rs.4.57 (Rs. 4.50 for 2006-07)

	2007-08	2006-07
b) Own Generation		
i) Through Diesel Generator (at Sarpady)		
Unit (Million KWH)	2.46	2.42
Unit per ltr. of Diesel (KWH/ltr.)	3.48	3.50
Cost / Unit (Rs./KWH)	8.61	8.56
ii) Through Steam turbine generator		
Unit (Million KWH)	613.41	582.08
Unit per ltr. of Fuel Oil (KWH/ltr)	2.07	2.08
Cost / Unit (Rs./KWH)	7.96	6.70
2. Fuel Oil		
Quantity (MMT) (Oil+Gas)	0.771	0.732
Total Amount (Rs. In Million)	13,301.66	10,646.13
Average Rate (Rs./MT)	17,252.12	14,538.87
3. Others / Internal Generation		
Diesel (at Sarapady)		
Quantity (KL)	705.38	691.59
Total Cost (Rs. in Million)	21.15	20.71
Rate (Rs./KL)	29,983.36	29,939.00
4. Consumption per unit production		
Total crude processed (MMTPA)	12.547	12.536
Total Fuel oil Consumed (MMTPA)***	0.842	0.819
Total Electricity (Million KWH) (after deducting external supply)	613.67	582.76
Fuel oil Consumption MT/ MT of Crude processed	0.0671	0.0653
Electricity Consumption KWH / MT of Crude processed	48.91	46.49

***(Includes fuel and loss)

FORM - B

A) Research and Development (R&D)

1. Specific Areas in which R&D carried out by the company 2007-08:

- **Crude Assay For MRPL**

  Arab Extra Light and Lower Zakum - Crude Assay was carried out using TBP apparatus.

- **Crude Assay For ONGC**

  Ramnadu Condensate, Cauvery Asset assay was carried out for ONGC.

- **Spent Caustic Treatment with Chlorine Dioxide.**

  Experiments were carried out to destroy odour causing phenolic compounds in spent caustic using Chlorine Dioxide as an oxidant.

- **Development of suitable Bio Additive for HSD.**

  FAME Bio additive of vegetable oil origin, waste kitchen oil and Fish oil was prepared and studied for use in HSD.

- **Oxidation Stability of Gasoline produced from various streams with and without Multi Functional Additives (MFA).**

  Oxidation Stability of Gasoline produced using Light Isomerite (ISOM) with and without MFA was studied.

- **Study for used lubricating oil and transformer oil performance using FTIR and WDXRF.**

  Methodology to study the lubricating and transformer oil performance has been established with FTIR and newly procured WDXRF instruments. Study is being continued.

2. Benefits derived as a result of the above R&D:

- Assay of Arab Extra Light and Lower Zakkum - Crude was carried out using TBP apparatus. Crude assay provided an indication of product yield pattern and helped to optimize unit-operating conditions to achieve the same yield pattern.

- Spent caustic treatment with Chlorine Dioxide, for destroying the odour causing phenols was studied at plant scale using chorine dioxide generator and treated effluent with new set up. Experiments proved that undesirable odour-causing phenols from the treated effluent and spent caustic could be destroyed very easily. Experiments indicated very high treatment cost compared to the existing Hydrogen Peroxide treatment. Encouraging results are expected with modified experimental set ups.

- FAME Bio additive of vegetable oil, Fish oil and waste Kitchen oil origin was prepared and studied for its characteristics, compatibility with HSD, storage stability of HSD with 1000 ppm dosage. Performance was evaluated using the actual engine. Based on the laboratory performance results, small scale bio additive plant is being finalized with a premier CSIR institute.

- Oxidation Stability of Gasoline produced using Light Isomerite (ISOM) with and without MFA study helped us to know the stability of gasoline and efficacy of MFA.
- Establishment of methodology to study the lubricating and transformer oil performance FTIR and newly procured WDXRF instruments helped us to monitor the performance at field level.

3. **Future plan of action:**

- Corrosion monitoring and inhibition (Water and Sulfide corrosion) in Refinery.
- Crude Evaluation (Continuation)
- Additive Evaluation (Continuation).
- To continue the study of used lubricating oil and transformer oil performance using FTIR & WDXRF. To establish methodology of monitoring trace metal contamination in Lube oil using ICP MS
- Catalysts Surface Area evaluation.
- Further Studies on Bio additive.
- Separate R&D wing at the cost of Rs 500.00 lakhs is being proposed with full time research staff.

4. **Expenditure on R&D:**

- **Capital** : Rs 48.23 lakhs
- **Revenue** : Rs 3.68 Lakhs
- **Total:** : Rs 51.91 lakhs
- Total R&D expenditure as percentage of total Turn over - Negligible

B) **TECHNOLOGY ABSORPTION, ADAPTATION & INNOVATION**

i) Efforts, in brief, made towards technology absorption, adaptation and innovation.

Technologies for process unit of phase-1 & 2 have been fully absorbed.

ii) Benefits derived as a result of the above efforts, e.g., product improvement, cost reduction, product development, import substitution, etc.

Refinery throughput sustained at 130% of installed capacity, even while meeting Clean Fuel specifications, which required higher complexity operations.

iii) In case of imported technology (imported during last 5 years reckoned from the beginning of the financial year), following information may be furnished.

a) Technology imported

Isomerisation process, Variable frequency drives

b) Year of import

2004-05

c) Has technology been fully absorbed?

Yes

d) If not fully absorbed, areas where this has not taken place, reasons therefor and future plans of action.

Not applicable.

C) **FOREIGN EXCHANGE EARNINGS AND OUTGO**

(Rs. in Crore)

	2007-08	2006-07
Foreign exchange Earnings		
FOB Value of Exports {Includes Rs.NIL (Previous yr. Rs.2066.65 million through M/S Bharat Petroleum Corporation Ltd)}	11,141.45	11,615.27
Foreign exchange Outgo	25,309.37	18,629.86

ANNEXURE II TO THE DIRECTORS' REPORT

COMMENTS OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA UNDER SECTION 619 (4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF MANGALORE REFINERY AND PETROCHEMICALS LIMITED FOR THE YEAR ENDED 31ST MARCH 2008.

The preparation of financial statements of Mangalore Refinery and Petrochemicals Limited for the year ended 31 March 2008 in accordance with the financial reporting framework prescribed under the Companies Act, 1956 is the responsibility of the management of the company. The statutory auditors appointed by the Comptroller and Auditor General of India under Section 619 (2) of the Companies Act, 1956 are responsible for expressing opinion on these financial statements under section 227 of the Companies Act, 1956 based on independent audit in accordance with the auditing assurance standards prescribed by their professional body the Institute of Chartered Accountants of India. This is stated to have been done by them vide their Audit Report dated 7th May 2008.

I, on the behalf of the Comptroller and Auditor General of India, have conducted a supplementary audit under Section 619 (3) (b) of the Companies Act, 1956 of the financial statements of Mangalore Refinery and Petrochemicals Limited for the year ended 31st March 2008. On the basis of my audit nothing significant has come to my knowledge which would give rise to any comment upon or supplement to Statutory Auditors' report under section 619 (4) of the Companies Act, 1956.

For and on the behalf of the Comptroller and Auditor General of India

K. P. Sasidharan
Principal Director of Commercial Audit
& *ex-officio* Member Audit Board II, Mumbai

Place: Mumbai
Date : 5th June 2008

MANAGEMENT DISCUSSION AND ANALYSIS REPORT (MDA)

1. INDUSTRY

1.1 The prices of crude oil in the international market have risen to unprecented high levels due to sustained high demand, geo-political uncertainties, production decline in ageing fields, supply concerns, speculative trading and weakning of US dollar.

1.2 In order to mitigate the impact of total 'pass-through' of international prices of Petrol, Diesel, Domestic LPG & PDS Kerosene to domestic consumers, the Govt. of India has been continuing to regulate the Retail prices of these products, which is resulting in substantial under-recoveries on sales of these products to Oil Marketing Companies (OMCs). Though the appreciation of Rupee against US dollar, during 2007-08 and marginal increase in Petrol and Diesel prices permitted by Govt. of India in January 2008 has to a limited extent, helped in reducing the under-recoveries of OMCs, there is still an yawning gap which is being bridged by Govt. through issue of oil bonds, directing upstream companies to give discounts on crude sales and to a limited extent advising Oil Marketing Companies to absorb the gap themselves. With a view to compensate for the huge underrecoveries expected during 2008-09 by PSU OMCs (IOC/BPC/HPC), Govt. of India has recently taken various measures which include moderate hike in the price of Petrol, Diesel & LPG, abolition of Custom Duty on crude oil, reduction in Custom Duty on Petroleum products, sharing of subsidy by upstream companies by giving discount on domestic crude oil and issue of oil bonds. In addition RBI has decided to lend through Designated PSU Banks against the oil bonds and also give US dollar directly through these banks to three PSU OMCs. These measures will largely take care the unprecedented critical situation faced by PSU OMCs due to substantial hike in crude oil prices in last couple of months.

1.3 Indian economy has been consistently growing at about 8% to 9 % in last couple of years. Demand for petroleum products has increased at a CAGR of 2.4% from 104.1 mmt in 2002-03 to 120 mmt in 2006-07 and is expected to grow by 3.3% annually during the Eleventh Plan period to about 139.2 mmt by 2012. The main demand drivers have been LPG, MS, ATF, HSD and Bitumen, which account for nearly 79% of the total consumption of petroleum products. The demand of Petrol, Diesel & ATF have grown about 10 % plus during 2007-08. The major sectors contributing to this growth are Power, Fertilizer, Aviation, Automobile and Transportation. Even in the long run, these sectors are expected to drive the demand of petroleum products.

1.4 Indian Refining capacity as on 31/03/2008 is 149 MMTPA and is set to increase to about 238 MMTPA by the end of 11th Plan (2011-12) as per various projects lined up in the country. Such capacity additions are expected to churn more quantity of petroleum products in domestic market and excess production is expected to be exported, making India a major exporter of petroleum products in the international market.

2. STRATEGY

2.1 The company continues to lay more emphasis on developing export potentials to sell its surplus production capacity. The company has been supplying approx. 1.0 MMTPA of petroleum products to State Trading Corporation, Mauritius under the 3 year term contract, signed in July 2007. Discussions with other National Oil Companies of few other countries are in progress for long term tie ups for export of Petrol, Diesel, ATF & Fuel oil etc.

2.2 The Company had been the sole supplier for all the 30 depots of Bangalore Municipal Transport Corporation and 6 of the depots of Karnataka State Road Transport Corporation. Similarly, MRPL was also supplying diesel to Indian Railways directly for few of its depots. MRPL has been adopting a non-aggressive approach to HSD marketing for the last one year and the existing customers were catered in anticipation of reduction in the under-recoveries. MRPL had also been making regular representation to Government for issue of Oil Bonds and price adjustment in ONGC oil prices in line with other PSU OMCs. However due to steep hike in the crude oil prices without corresponding price hike in retail selling prices, and GOI's decision of not extending oil bonds & crude discounts to MRPL in line with other PSU OMCs (IOC/BPC/HPC) the company had to take steps to reduce these supplies starting April 2008, so as to restrict the heavy under-recoveries on these sales.

2.3 The Company has been producing and exporting substantial quantities of Aviation fuel (ATF) which can be utilized to meet the increasing demand in India. A JV formed with Shell Gas B.V. Netherland (one of the global oil Major) viz., Shell MRPL Aviation Fuel and Services Pvt. Ltd., will focus on marketing of ATF to both Domestic and International Airlines at Indian Airports. Initially, the marketing operations will commence at Bangalore and Hyderabad Airports which have open access systems for all the ATF suppliers, Mangalore Airport where the Company has permission for fuelling through Mobile Refullers and will be later extended to other Airports in India.

2.4 While the long term goal of setting up 500 Retail Outlets has been retained, in short to medium term, the company has been proceeding cautiously to set up its retail outlets, in view of heavy under recoveries in the Retail Sector, and the Government's refusal to issue Bonds to MRPL and NRL (both Government of India Companies) for such under recoveries. MoP&NG has also recently directed the company to put on hold setting of any new retail outlet for a period of two years. The first retail outlet of MRPL "HiQ outlet" has been started w.e.f 12/01/2008. Where the construction is nearing completion, the company is targeting to set up 2 more retail outlets in the FY 2008-09.

2.5 The present configuration of the refinery produces significant quantity of Black Oil which reduce the refining margins. The Phase III Refinery Project, which is designed to improve distillate yield and increased processing of low priced heavy, sour and high TAN crudes, coupled with increase in capacity from 9.69 MMTPA to 15 MMTPA, is under implementation. This project is expected to significantly improve the Refinery Margins and will ensure long-term economic viability of the company's operations. The highlight of the Project is a modern Petro FCC unit which will produce about 21% Propylene (a high value product) which is highest by any Indian Refinery.

2.6 To add significant incremental value to the excess available naphtha, an Aromatic Complex is being set up by ONGC Mangalore Petrochemicals Ltd (a SPV Company of ONGC and