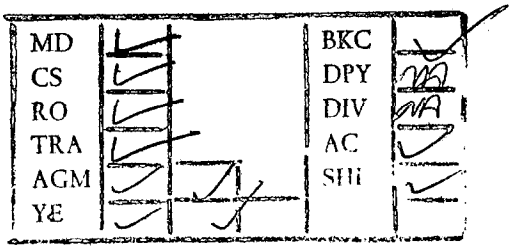
Seventh Annual Report 1997-98



Reliance
Petroleum Limited

Reliance Petroleum Limited

CONTENTS

	Pg. No.
Notice of Annual General Meeting	4
Project Highlights	4-8
Directors' Report	9 - 10
Auditors' Report	11
Balance Sheet	12
Schedules annexed to Balance Sheet and Notes on Accounts	13 - 20
Cash Flow Statement	21
Investor Information	22
Proxy Form & Attendance Slip	23

SEVENTH ANNUAL GENERAL MEETING

Saturday, the 26th September, 1998 at 10.30 a.m. at Village Motikhavdi, P.O.Digvijay Gram, Dist. Jamnagar, Gujarat 361 140.

REGISTERED OFFICE

Village Motikhavdi,
P.O. Digvijay Gram, Dist. Jamnagar,
Gujarat 361 140.
Tel No.: 0288-510000
Fax No.: 0288-517850

CORPORATE OFFICE

3rd Floor, Maker Chambers IV,
222, Nariman Point
Mumbai 400 021, India.
Tel. No. 022-2831633
Fax No. 022-2042268

REFINERY COMPLEX

Dist. Jamnagar, Gujarat

REGISTRARS & TRANSFER AGENT

Karvy Consultants Limited
21, Avenue 4, Street No.1,
Banjara Hills,
Hyderabad - 500 034.
Tel. No. 040-3320666
Fax No. 040-3323058
E-Mail: reliance@hd1.vsnl.net.in
karvy_rpl@hotmail.com

BOARD OF DIRECTORS

Dhirubhai H. Ambani
Chairman

Mukesh D. Ambani
Vice Chairman

Anil D. Ambani
Managing Director

A. K. T. Chari
Nominee of IDBI

Mansingh L. Bhakta

S. R. Setlur

K. K. Malhotra

Nikhil R. Meswani

Hital R. Meswani

SOLICITORS & ADVOCATES

Kanga & Co.

AUDITORS

Chaturvedi & Shah
Member – Summit International Associates Inc.

BANKERS

ABN AMRO Bank
Allahabad Bank
Bank of America
Bank of Baroda
Barclays Bank
Canara Bank
Commerz Bank
Citibank N.A.
Dena Bank
Deutsche Bank
HDFC Bank
HongkongBank
IDBI Bank
Indian Bank
Punjab National Bank
State Bank of India
Syndicate Bank
State Bank of Saurashtra
The Chase Manhattan Bank N.A.

NOTICE

Notice is hereby given that the Seventh Annual General Meeting of the Members of **Reliance Petroleum Limited** will be held on Saturday, the 26th September, 1998, at 10.30 a.m. at Village Motikhavdi, P.O. Digvijay Gram, District Jamnagar, Gujarat 361 140 to transact the following ordinary business :

1. To consider and adopt the Balance Sheet as at 31st March, 1998, and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Shri K.K. Malhotra who retires by rotation and being eligible offers himself for reappointment.
3. To appoint a Director in place of Shri S.R. Setlur who retires by rotation and being eligible offers himself for reappointment.
4. To appoint Auditors to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting and to fix their remuneration.

By Order of the Board
K. Sethuraman
Vice President - Corporate Secretarial

Mumbai
Dated: *July 28, 1998*

NOTES

1. **A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member.**
2. All documents referred to in the accompanying Notice are open for inspection at the Registered Office of the Company during office hours on all working days except Saturdays and holidays, between 11.00 a.m. and 1.00 p.m., upto the date of the Annual General Meeting.
3. Members/Proxies should bring the Attendance Slip duly filled in for attending the meeting. The Register of Members shall remain closed from Saturday, 19th September, 1998 to Saturday, 26th September, 1998 (both days inclusive).
4. Shareholders seeking any information with regard to accounts are requested to write to the Company at the earliest so as to enable the management to keep the information ready.

PROJECT HIGHLIGHTS

THE WORLD'S LARGEST GRASSROOT REFINERY PROJECT

Reliance Petroleum Limited (RPL) is implementing the world's largest grass root refinery project at Jamnagar, Gujarat. The refinery will have capacity for processing 18 million metric tonnes of crude oil per annum. This will represent approximately 25 % of India's existing refining capacity, making RPL the country's largest private sector refinery.

HIGHEST DEGREE OF COMPLEXITY IN THE ASIA PACIFIC REGION

A refinery usually has two types of processing units: primary processing units and secondary processing units. The primary processing unit processes gas and oil through a simple process of distillation. These products are then upgraded in the secondary processing units, by reactions such as cracking, coking and reforming.

The relative proportion of the secondary and primary processing capacity denotes effective complexity of a refinery. Higher relative capacity of the secondary units denotes a higher complexity, and indicates an enhanced ability to add value.

Complexity is rated by a Nelson Complexity Index for refineries. The Nelson Complexity Index for refineries in India ranges from 4 to 7.5, while for RPL it is above 10. This complexity will be the highest in the Asia-Pacific region.

The refinery is specifically designed to process the complete range of crude – from 100% Arabian Light to 100% Arabian Heavy crude. Depending on price trends of crude and end products, the crude mix and the product slate can be altered to maximize margins.

The higher complexity will provide the following advantages to RPL:

- Production of higher value products, leading to higher Gross Refining Margins (GRM). GRM denotes the difference between value of the refined products and the cost of crude oil.
- Higher flexibility to alter its product slate to produce various grades of petroleum products, depending upon market conditions from time to time.
- Ability to process heavier, and therefore, cheaper crude, more efficiently than a low complexity refinery – contributing to higher GRMs. The secondary units like the Fluidised Catalytic Cracker (FCC) and delayed coker will be able to handle the heavier components of crude and generate more value. The FCC and coker units at Jamnagar are the largest of their kind in the world.

STATE OF THE ART TECHNOLOGY

The RPL refinery is being set up employing state-of-the-art technology. Bechtel France SA (Bechtel), a global major in turnkey projects, has been given the single point responsibility for basic engineering, procurement, equipment supply, project management and site services assistance during the commissioning and start-up of the refinery.

Bechtel is one of the world's leading engineering construction, maintenance and related technical services groups, with a presence in 140 countries. Bechtel has interests in, inter alia, engineering and construction of power plants, refineries, petrochemical plants and oil and gas facilities, and has executed over 300 refinery and 350 chemical / petrochemical projects.

Bechtel has engaged UOP Inter Americana Inc. (UOP) of the US as the technology licensor. UOP is the largest supplier of refining technolo-

gies, and has supplied technology to nearly half the refining units set up all over the world.

Internationally renowned companies like Linde AG, Pritchard Corporation, Sumitomo Heavy Industry, Saipem SA, Foster Wheeler USA Corporation and IDE technology will be supplying the major parts of the critical plant and machinery.

Sophisticated control systems for furnaces and other critical equipment, safety systems and Advanced Process Control (APC) systems are being employed to optimise overall operating costs. Online equipment monitoring and data analysis will reduce maintenance costs and equipment failure, minimising possibilities of unscheduled shutdowns. Modern burner management systems for furnaces, and quality control by online analysers, will lower operating costs, besides providing operating personnel with safer and healthier working conditions.

The superior technology deployed at the RPL refinery will enable it to meet product specifications of the highest international levels. For instance, the refinery can produce diesel with 0.25% sulphur content, compared to other refineries in India which produce diesel with sulphur content ranging from 0.5% to 1%. Likewise, RPL will produce unleaded gasoline, which is not commonly produced by other refineries in India.

Value added integration

The Jamnagar manufacturing complex is the first fully integrated manufacturing complex in the world to house a petroleum refinery complex, an aromatics/petrochemical complex, a power generation complex, a port and terminal complex, and a pipeline network.

The combined investment of over Rs. 22,000 crores being made by the Reliance group at Jamnagar represents the single largest investment ever made at a single location in India by any private sector group.

The unique degree of integration at the Jamnagar complex will provide significant feedstock and product linkages, leading to higher efficiencies, enhanced value addition and savings in freight costs. Products from the refinery will be key feedstocks for the Reliance group's petrochemicals and power generation complexes.

2.5 million tonnes of reformate, 400,000 tonnes of propylene, and 1.4 million tonnes of coke, constituting approximately 25% of the refinery's total production, will be consumed in the adjoining aromatics / petrochemical complex and power plants. Besides, the entire naphtha production and 600,000 tonnes of kerosene will be consumed as feedstock, at the group's other petrochemicals and power complexes.

The freight savings resulting from at-site integration are substantial, as transport of some products, for instance, propylene, requires dedicated cryogenic storage and transport facilities.

Logistics

The Jamnagar complex will have completely integrated logistics for product handling and evacuation. The world scale port, tank-farm complexes (at the port and the refinery), and pipeline network at Jamnagar will handle and store the crude required for the refinery.

The Jamnagar port will be the only all weather deep sea port in India, with potential for operating 365 days a year, and with the flexibility to receive all types of vessels, including ULCCs (ultra large crude carriers). Sophisticated navigation aids, communication systems and support vessels will permit 24-hour operations.

The port complex will have a dual Single Point Mooring (SPM) system, with 48" sub sea pipelines, with potential to handle the equivalent of India's entire current imports of crude. The port capacity will be more than 20% of the aggregate capacity of all existing Indian ports, making it the largest private sector port in the country.

The tank farm at the complex will be the country's largest, with 199 tanks having an aggregate capacity of 3.7 million cubic metres.

The refinery complex will be complemented by the country's largest product dispatch terminal, incorporating extensive facilities for dispatch of products by road, rail and sea. These will include 47 road loading bays, 2 full rake rail loading facilities and 4 dedicated product jetties.

Access to a deficit and rapidly growing domestic market for end products, will enhance RPL's competitiveness. Northwest India accounts for 1/3rd of India's consumption of petroleum products. The bulk of this consumption is presently being met by imports at Kandla, a port 50 kilometres across the gulf of Kutch from Jamnagar.

The North west market is fed from Kandla, through a 1,400 kilometre pipeline. The RPL refinery will replace imports at Kandla by supplying its products.

Ocean movement of products through tankers provides an alternative mode of product evacuation to Kandla, as well as to the group's petrochemicals complex at Hazira, and to other markets in the country.

Global Competitiveness

The RPL refinery will rank amongst the most competitive refineries in the world. RPL's global competitiveness is derived from:

- Low capital costs per tonne, and significant economies of scale. RPL's capital costs are the lowest, amongst new upcoming refineries of this complexity.
- Optimal operating costs, arising from deployment of state-of-the-art technology.
- High degree of complexity, leading to higher GRMs.
- Unique locational advantages, for both, feedstock access and product evacuation.
- At-site integration, resulting in capturing of value across a broader spectrum of the energy chain.

Oil sector reforms

The government of India has announced several reforms in the oil sector, in a bid to attract higher investments and bridge the growing demand-supply deficits in the country. These include:

- Delicensing of the refining sector, giving private sector refiners the freedom to set up refineries and/or add new capacities.
- De-canalisation of crude imports, giving freedom to private sector refineries to directly source their own crude requirements. This will enable RPL to maximise its GRMs, by optimising the cost of crude as well as improving yields.

- A programme for phased dismantling of the Administered Pricing Mechanism (APM) in the refining sector, and a smooth transition to a fully Market Determined Pricing Mechanism (MDPM) by the year 2002.
- Deregulation of the marketing of controlled petroleum products. Presently, marketing of LPG, gasoline, kerosene, aviation fuel and diesel, remains with the public sector. Private refiners like RPL will be allowed to market and distribute these refined products after the year 2002. In the interim, RPL will have the assurance of evacuation and disposal of its entire production of controlled products, through marketing arrangements with the oil PSUs, thereby enjoying complete access to the widespread and well-established distribution infrastructure of the public sector.
- Complete seven-year income tax holiday for new refineries, announced in the recent union budget.

Project Progress

RPL has made substantial progress in project implementation. The project is expected to be commissioned in the second half of 1999. A few of the highlights of project implementation work are given below.

Manpower Mobilisation

The Jamnagar site is currently the world's largest petrochemical-energy construction site, spread over 7,500 acres. Over half a million man-hours of work are accomplished at the Jamnagar site every day by a large and dedicated work force.

Thousands of engineering professionals, together with skilled, semi-skilled and other labour have been assembled for the most ambitious industrial project ever undertaken in India. The total workforce deployed at the peak will include over 16,000 civil workers, more than 40,000 mechanical workers, around 4,000 electrical workers and 3,000 instrumentation workers.

Mobilisation of Equipment

Specialised construction equipment has been mobilised for this mega project, including 600 cranes, 20 batching plants, 630 dumpers/trailers/tippers, 180 earthworking equipment, 140 transit mixers and 2,000 welding generators / rectifiers.

The largest crane in the world – Van Suemaran - with a capacity to handle over 1,600 tonnes has been deployed for super heavy lifts such as the 1,560 tonne C3 Splitter. This highly specialised, fully computerised crane has been deployed in India for the first time.

The total quantum of equipment procured and mobilised for the project is considerably higher than the resources normally owned/operated by any large turnkey project construction company. Almost all the major construction contractors in India are working on this project, and have deployed their full range of equipment. RPL itself has procured certain items of critical equipment to ensure that there are no bottlenecks.

Project Implementation Infrastructure

RPL has created the largest ever in-house infrastructure for smooth, timely and efficient project implementation. A few highlights are detailed below.

Craft Training Centres

The total manpower with all available contractors was short of the required number of skilled and semi-skilled labour. Specialised categories like skilled welders, riggers, and carpenters were not available.

To overcome this anticipated shortfall, RPL set up an in-house Craft Training Centre at the Jamnagar site. This centre trained and developed skilled personnel required for project implementation. Real time training in skilled operations was imparted on the site to hundreds of workers. Fast track rigorous training modules of around 3 / 4 weeks, enabling workers to acquire skills and contribute to project work immediately after course completion, have been designed and implemented with great success. More than 4,000 skilled personnel are currently targeted for training at this centre.

Pipe Bending Shop

Pipes are one of the most critical components of petroleum and petrochemicals plants. Around 4,000 kms of piping will be required to be installed at the Jamnagar complex, within a period of just 10-12 months.

RPL has set up an in-house Pipe Bending Shop at the site to have the required quantity, variety and quality of bended pipes. The magnitude and quality of the work performed at this bending shop is unique in the global context.

Jetty

The equipment required for the refinery project is of such dimensions that it is not possible to transport the same through conventional methods, such as receiving them at a port like Bombay, and then transshipment to site by road.

To save time as well as costs, it was necessary that equipment and critical material be received at a jetty on the site. The project team responded to the challenge, and constructed the jetty in just 4 to 5 months - before the first equipment arrived in October 1997. This task was accomplished by thousands of dedicated labourers working day and night.

Information Technology Tools

State-of-the-art information technology tools / infrastructure has been deployed for speedy project implementation/operations at Jamnagar. The unique features include:

- Dedicated communications network between the site office at Jamnagar, and project offices at Mumbai, London and Chicago. Modern satellite communication infrastructure is extensively used to achieve this connectivity. This is the first time that such a modern communication network has been set up in India to facilitate project implementation. Apart from facilitating engineering data transfer and email facilities, this network is also extensively used for voice and video communication between the various nodes of RPL's project management team.
- Engineering drawings are directly transferred from the project offices

to the site via satellite. This reduces any possibility of error that is inherent in any paper-based transmission of documents. This approach also eliminates paperwork and postal / courier delays. This world class approach of setting up a fully networked engineering and construction effort is unique in the Indian context.

- The entire Engineering Procurement and Construction (EPC) process has been completely automated - another first in the Indian context.
- A state of the art Procurement Tracking System (PTS) has been deployed to track the status of procurement of all equipment - ranging from a small bolt, to a huge over dimensional consignment (ODC). This has led to tremendous savings in time and effort.
- Drawings of various fabricated items are directly fed electronically to the CNC machines in pipe bending shop.
- Use of 3D plant model tools for project review, allows the engineering and construction team to ensure that any engineering/design defects are promptly identified and resolved.

Housing

Jamnagar City and its hinterland did not have adequate facilities for housing the families of RPL's massive workforce.

RPL created the necessary housing complex for the thousands of labourers and their families at the site, catering for not just housing, but also various facilities such as food, schooling and medical aid. The amenities provided to the huge labour force in the housing complex at site, are comparable to the best construction sites in the world.

Site Administrative Offices

The project management team comprises of around 4,500 personnel. These managers and engineers need to be at the site all the time. Comfortable administrative offices with most modern office automation facilities have been created to support the activities of the project management team. A vast office area of over 4,25,000 square feet has already been created and furnished with modern amenities and extensive communication networks.

Present Status of the Project

Substantial progress has been achieved in project implementation. A brief set of highlights achieved on each front – namely, engineering, procurement and construction is given below.

Engineering

- Overall Engineering has progressed to more than 97.2 %

Procurement

- Equipment deliveries are at peak and nearing completion.
- Bulk deliveries are nearing completion, except top up quantities ordered recently.
- Major thrust is on expediting the deliveries.
- All Super Over Dimensional Consignments (ODC) have been received at site.
- More than 50 % ODC equipment has been received at site and balance are being shipped.
- About 40 % of other equipment have been delivered at site and balance is being shipped.

Construction

- Majority of civil works is complete. Civil construction labour demobilisation has commenced.
- Structural erection work is at peak.
- Mechanical labour mobilisation has approached peak levels.
- All OSBL & ISBL piperacks - civil works are complete and structural works are nearing completion.
- Piping erection has commenced at multiple fronts in all areas.
- 86 % of Concreting has been completed
- In Crude/Hydrotreating complex, major underground works have been completed and 2 nos. (Super ODC) vacuum columns erected
- FCC Regenerator and Reactor (Super ODCs) erected
- All non-plant buildings are partially operational, and balance-finishing jobs are in final stages of completion.
- Major underground work is completed.
- All 6 Coker drums erection completed and structures for other 2 nearing completion
- All substations civil construction are nearing completion and are ready for electrical installation
- Permanent township facilities for 2000 persons are nearing completion

Our Commitments

Human Resource Development

Human Resource Development is being given the highest priority at RPL. Reliance recognizes that training and development as well as continuous learning by individuals is a necessity for organisational survival in the rapidly changing business environment.

Specialised training courses have been designed across the knowledge / skill / value spectrum for all employees. Different modes of training include classroom training, licensor training, simulator training, training in Hazira and Patalganga complexes, refinery training and overseas training.

Health, Safety and Environment

Health, Safety and Environment management at RPL is based on the 'Responsible Care' Initiative.

RPL has remained committed to maintaining the highest standards of safety during the construction activity. Incentives are given to contractors based on safety records. Regular safety audits both internal and external are carried out. Ongoing training and validation for all the employees including contractors ensures better safety in all construction activities. Helmets and footwear are provided to the entire labour force to ensure that even minor accidents do not occur. The layout of the complex and individual plants has been conceptualized with a view to enhance the safety during the operation of the refinery.

RPL is committed to running an environment friendly operation. A green belt is proposed to be developed around the perimeter of the com-