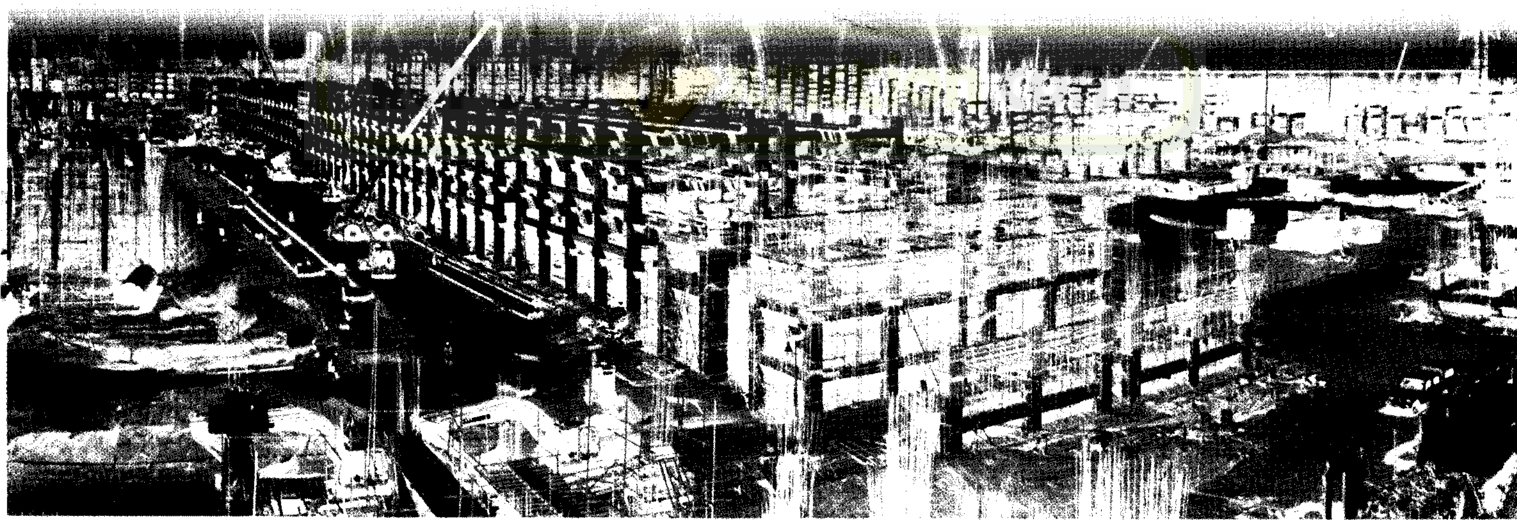
Refining Life. Redefining Growth.



Reliance
Petroleum Limited

# A rapidly evolving project skyline

Sulphur Complex



Alkylation Complex

**Mukesh D. Ambani**
*Chairman*

Dear Shareowners,

Let me begin by extending a warm welcome to the over 1 million shareholders who are now a part of the Reliance family. I also take this opportunity to update all our stakeholders on the company's progress during the year 2006-07. This has been our first year since the IPO - an IPO that was oversubscribed by over 51 times and generated a demand of US$ 32 billion - creating a record for the largest IPO for any greenfield project in the world.

The response of domestic and international investors is reflective of the confidence in India's growth potential worldwide. Despite several challenges, the Indian economy (the second-fastest growing economy in the world) recorded a GDP of 9% in 2006-07, ushering in an era of sustainable high-growth rates. We believe this will create all-round prosperity, enhancing both per-capita income and consumption levels.

The Indian growth story is rapidly attracting the attention of all the global majors, resulting in substantial foreign direct investments and inflows from foreign institutional investors. In the coming years, as India demonstrates its competitiveness in the manufacturing and services sector, we believe this trend will gather even greater momentum. In a borderless world, Indian companies are viewing the globe as their market and we trust this is just the start - the start of the 'Indian Global Outsourcing' era.

This buoyant outlook augurs well for the demand of petroleum products and reinforces confidence on long-term prospects for the sector. Inspite of high crude prices, the global refining fundamentals remain intact and promise exciting value creation opportunities for complex refineries. The continuing shortage of global refining capacities, coupled with tightening product specifications and slow growth in desulphurization capacities, is expected to provide a favourable environment for refining margins.

Reliance Petroleum Limited (RPL) is gearing up, with its refinery at the Special Economic Zone in Jamnagar, Gujarat, to avail of this immense opportunity. With a crude processing capacity of 580,000 barrels per day, this refinery will be the sixth largest globally, catapulting Jamnagar to the position of the 'Refining Capital of the World'. Work is also progressing simultaneously on implementing 0.9 mtpa capacity polypropylene project. Aggressive implementation efforts have resulted in the achievement of significant progress; several key milestones have been achieved and the project skyline has undergone rapid transition.

RPL is implementing its refinery project in total compliance with the highest standards of Health, Safety and Environment (HSE). These standards have been implemented in every facet of the Project including design and configuration, engineering, procurement, construction and ultimately operations. Several international experts along with Safety experts from the Centre for HSE Excellence at Reliance are engaged in implementing world class HSE practices and systems.

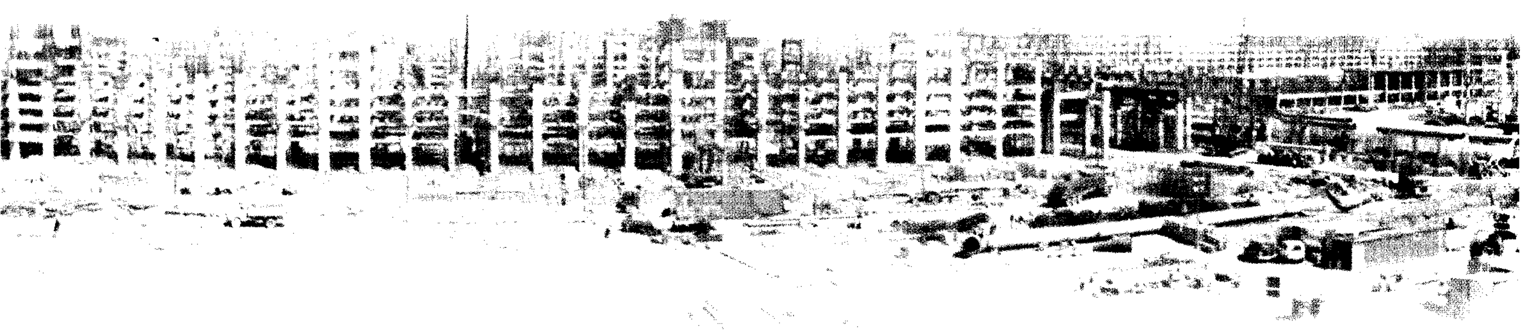
Reliance has deputed experienced personnel in the form of trained and skilled managers and engineers to accelerate the progress of the project. Robust systems have been implemented to monitor the progress, anticipate potential critical issues and identify timely actions to ensure fast track implementation. With the experience and dedication of the Reliance project team, coupled with the commitment of its implementation partners, your company is confident of completing the project on schedule by December 2008.

The conviction in the project execution capabilities of the Reliance Group and its talented human resource base is demonstrated in the decision of Chevron Corporation - a global oil and gas major - to acquire a 5% equity stake in the upcoming refinery project. This confidence is also visible through our success in our debt-raising efforts - RPL secured commitments for US$ 3.4 billion of debt through global syndication, as against a borrowing program of US$ 2 billion - the largest foreign currency financing for any single project in Asia, excluding China. Such conviction reposed in our capabilities inspires us to strive harder to create wealth and maximise value for all our stakeholders.

I would like to take this opportunity to express my gratitude to the Board of Directors of RPL, bankers, employees, suppliers and the shareholders for their unstinted support and the confidence they have placed in our ability to make RPL a great success.

With best wishes,
Sincerely,

**Mukesh D. Ambani**
*Chairman*



# Contents



# Company Information

### Board of Directors

Mukesh D. Ambani – Chairman
Hital R. Meswani
Manoj Modi
(Upto March 27, 2007)
P. M. S. Prasad
Jagjeet Singh Bindra
(from June 21, 2006)
Yogendra P. Trivedi
Mahesh P. Modi
Atul S. Dayal
Bobby Parikh

### Company Secretary

Ramesh Kumar Damani

### Audit Committee

Yogendra P. Trivedi – Chairman
Mahesh P. Modi
Bobby Parikh

### Shareholders' / Investors' Grievance Committee

Yogendra P. Trivedi – Chairman
Mahesh P. Modi
Hital R. Meswani

### Auditors

Deloitte Haskins & Sells
Chaturvedi & Shah

### Project Location

Special Economic Zone
Taluka Lalpur
District Jamnagar – 361 140
Gujarat, India.

### Registered Office

Motikhavdi
P.O. Digvijayagram
District Jamnagar – 361 140
Gujarat, India.

### Corporate Office

3rd Floor, Maker Chambers IV,
222 Nariman Point,
Mumbai – 400 021.
Maharashtra, India.
Email: investor_relations@reliancepetroleum.com
http://www.reliancepetroleum.com

### Registrar & Transfer Agents

Karvy Computershare Private Limited
46, Avenue 4, Street No. 1,
Banjara Hills, Hyderabad 500 034, India
Tel +91 40 2332 0666, 2332 0711
2332 3031, 2332 3037
Fax +91 40 2332 3058
Email: rplinvestor@karvy.com
http://www.karvy.com

# Notice

Notice is hereby given that the Second Annual General Meeting of the Members of RELIANCE PETROLEUM LIMITED will be held on Monday the 16th day of July 2007 at 3.00 p.m., at Motikhavdi, P.O. Digvijaygram, District Jamnagar 361 140, to transact the following businesses:

**Ordinary Business:**

1. To consider and adopt the audited Balance Sheet as at March 31, 2007 and the Reports of the Board of Directors and Auditors thereon.

2. To appoint Directors in place of those retiring by rotation.

3. To appoint Auditors and to fix their remuneration and in this regard to consider and if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution:**

   "RESOLVED THAT M/s Deloitte Haskins and Sells, Chartered Accountants and M/s Chaturvedi & Shah, Chartered Accountants be and are hereby appointed as Auditors of the Company, to hold office from the conclusion of this Annual General Meeting until the conclusion of the next Annual General Meeting of the Company on such remuneration as shall be fixed by the Board of Directors."

**Special Business:**

4. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a **Special Resolution**:

   "RESOLVED THAT pursuant to the provisions of Section 31 and all other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered by inserting, after the existing Article 131, the following as Article 131A:

   Article 131A - appointment of Director Nominated by Chevron

   Notwithstanding anything to the contrary contained in these Articles,

   (a) Chevron shall be entitled to nominate one Director ("Chevron nominee") on the Board of Directors of the Company, so long as Chevron retains the ownership of all of the Initial Investment Shares as are held by Chevron directly or collectively with any one or more of its Affiliates. The Nominee Director so appointed shall not be liable to retire by rotation.

   (b) The Chevron nominee on the Board shall resign promptly following: (i) any decrease in the holding of the Initial Investment Shares, by sale or otherwise, other than by a transfer of any shares to an Affiliate; or (ii) an Affiliate holding any of the Initial Investment Shares ceasing to be an Affiliate.

   (c) Chevron may not appoint its nominee as a Director of the Company, but any failure by Chevron to put forward its nominee will not act as a waiver by Chevron of its entitlement to appoint its nominee on the Board of the Company.

   (d) The Chevron nominee on the Board shall have the right to nominate any person to be appointed as an alternate director on the Board and the Board shall appoint such person as a director alternate to the Chevron nominee.

   For the purpose of this Article

   (i) 'Affiliate(s)' means such entity or entities that are controlled by Chevron Corporation, U.S.A. and are directly or indirectly owned at least 95% by Chevron Corporation, U.S.A.

   (ii) 'Chevron' means Chevron India Holding Pte. Limited, organised under the laws of Singapore being an indirect, wholly owned subsidiary of Chevron Corporation, U.S.A.

   (iii) 'Initial Investment Shares' means 225,000,000 equity shares of Rs. 10 each acquired by Chevron from Reliance Industries Limited pursuant to the Equity Investment Agreement dated April 12, 2006 among Reliance Industries Limited, Chevron and the Company."

5. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an **Ordinary Resolution**:

   "RESOLVED THAT in accordance with provisions of Section 255 and other applicable provisions, if any, of the Companies Act, 1956 or any statutory modification(s) or re-enactment thereof for the time being in force and Article 131A of the Articles of Association of the Company, Shri Jagjeet Singh Bindra, who was appointed as an Additional Director of the Company pursuant to the provisions of Section 260 of the Companies Act, 1956, and who holds office up to the date of this Annual General Meeting and in respect of whom the Company has received a notice under Section 257 of the Companies Act, 1956 from a member, in writing, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company not liable to retire by rotation."

By Order of the Board of Directors

Ramesh Kumar Damani
Company Secretary

Mumbai
April 25, 2007

Registered Office:

Motikhavdi, P.O. Digvijaygram,
District Jamnagar 361 140 Gujarat

NOTES :

1. **A member entitled to attend and vote at the Annual General Meeting (the Meeting) is entitled to appoint a proxy to attend and vote on a poll instead of himself and the proxy need not be a member of the Company. The instrument appointing proxy should, however, be deposited at the Registered Office of the Company not less than forty-eight hours before commencement of the Meeting.**

2. An Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, relating to the Special Business to be transacted at the Meeting is annexed hereto.

3. Corporate Members intending to send their authorised representatives to attend the meeting are requested to send a certified copy of the Board Resolution authorising their representative to attend and vote on their behalf at the Meeting.

4. In terms of Article 155 of the Articles of Association of the Company, Shri Hital R. Meswani, Shri Y. P. Trivedi and Shri M P. Modi, Directors, retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for re-appointment. A brief resume of these Directors, nature of their expertise in specific functional areas, and names of companies in which they hold directorship and membership/chairmanship of Board Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report. The Board of Directors of the Company commend their respective re-appointments.

5. Members are requested to bring their Attendance Slip alongwith their copy of the Annual Report to the Meeting.

6. Members who hold shares in dematerialised form are requested to write their Client ID and DP ID Numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the Meeting.

7. In case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.

8. Register of Members and Transfer Books will remain closed from Monday July 9, 2007 to Monday July 16, 2007 (both days inclusive).

9. The Articles of Association, with proposed alteration is open for inspection by the members at the Registered Office of the Company on all working days, except Saturdays, between 11.00 a.m. and 1.00 p.m. up to the date of the Meeting.

## Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956

**Item No. 4**

Reliance Industries Limited (RIL), Chevron India Holdings Pte. Limited (Chevron) and the Company had entered into an Equity Investment Agreement on April 12, 2006 which provided, inter-alia, for the entitlement to Chevron to appoint its nominee on the Board of Directors of the Company as a non rotational Director and to alter the Articles of Association of the Company to reflect this provision of the Agreement.

Under the provisions of Section 31 of the Companies Act, 1956, the Articles of Association of a Company may be altered with the approval of its members by passing a special resolution. The Board commends the resolution for altering the Articles of Association of the Company for approval of the members.

Save and except Shri Jagjeet Singh Bindra, a nominee of Chevron on the Board, none of the other Directors of the Company are, in any way, concerned or interested in this resolution.

**Item No. 5**

The Board of Directors of the Company ("the Board") at its meeting held on July 21, 2006 appointed, pursuant to the provisions of Section 260 of the Companies Act, 1956 and Article 135 of the Articles of Association of the Company, Shri Jagjeet Singh Bindra as an Additional Director of the Company representing Chevron.

In terms of the provisions of Section 260 of the Companies Act, 1956, Shri Jagjeet Singh Bindra shall hold office of Director up to the ensuing Annual General Meeting of the Company.

The Company has received a notice in writing from a member along with a deposit of Rs.500 proposing the candidature of Shri Jagjeet Singh Bindra for the office of Director of the Company. Shri Bindra is not disqualified from being appointed as Director in terms of Section 274(1)(g) of the Companies Act, 1956 and has complied with the requirements of obtaining Directors Identification Number in terms of Section 266A of the said Act.

A brief resume of Shri Jagjeet Singh Bindra, nature of his expertise in specific functional areas as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in the Report on Corporate Governance forming part of the Annual Report.

The Board commends the resolution for appointment of Shri Jagjeet Singh Bindra as a Director of the Company. In terms of the Agreement dated April 12, 2006 and the proposed alteration in the Articles of Association as contained in Item no. 4 hereinbefore, it is proposed that Shri Bindra shall not be liable to retire by rotation.

Save and except Shri Jagjeet Singh Bindra, none of the other Directors of the Company are, in any way, concerned or interested in this resolution.

By Order of the Board of Directors

Ramesh Kumar Damani
Company Secretary

Mumbai
April 25, 2007

# Management's Discussion and Analysis

## Forward Looking Statements

*This report contains forward looking statements, which may be identified by their use of words like 'plans', 'expects', 'will', 'anticipates', 'believes', 'intends', 'projects', 'estimates' or other words of similar meaning. All statements that address expectations or projections about the future, including but not limited to statements about the company's strategy for growth, product development, market position, expenditures and financial results, are forward looking statements. Forward looking statements are based on certain assumptions and expectations of future events. The company cannot guarantee that these assumptions and expectations are accurate or will be realised. The company's actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements. The company assumes no responsibility to publicly amend, modify or revise any forward looking statements on the basis of any subsequent developments, information or events.*

## Introduction

Reliance Petroleum Limited ("RPL" or the "Company"), was set up to harness an emerging value creation opportunity in the global refining sector by Reliance Industries Limited (RIL), one of India's largest private sector company with a significant presence across the entire energy chain and a global leadership across key product segments. Currently, RPL is 75% owned subsidiary of RIL. RPL also benefits from a strategic alliance with Chevron India Holdings Pte Limited, Singapore, a wholly owned subsidiary of Chevron Corporation USA (Chevron), which currently holds a 5% equity stake in the Company.

RPL was formed to set up a greenfield petroleum refinery and polypropylene plant in the Special Economic Zone (SEZ) at Jamnagar in Gujarat. This global sized, highly complex refinery is being located adjacent to RIL's existing refinery and petrochemicals complex, which is amongst the largest and most efficient in the world, thus offering significant synergies.

With an annual crude processing capacity of 580,000 barrels per stream day (BPSD), RPL will be the sixth largest refinery in the world. It will have a complexity of 14.0, using the Nelson Complexity Index, ranking it amongst the highest in the sector. The polypropylene plant will have a capacity to produce 0.9 million metric tonnes per annum.

The refinery project is being implemented at a capital cost of Rs. 27,000 crore being funded through a mix of equity and debt. This represents a capital cost of less than US $10,000 per barrel per day and compares very favourably with the average capital cost of new refineries announced in recent years. The International Energy Agency (IEA) estimates the average capital cost of new refinery in the OECD nations to be in the region of US $15,000 to 20,000 per barrel per day. The low capital cost of RPL becomes even more attractive when adjusted for high complexity of the refinery. RPL's low capital cost is a result of the benefits of 'intelligent repeat' of design and engineering aspects of RIL's existing refinery, proactive procurement strategy and faster implementation of the refinery project. This is expected to provide sustainable competitive advantage in the market place and enable RPL to deliver superior value in the coming years.

RPL has embarked on an aggressive implementation plan and is targeting to complete the project within a short span of 3 years by 'intelligently replicating' the existing refinery of RIL, through repeat efforts on the engineering, procurement and construction fronts, with the same team, viz. Bechtel, UOP, Foster Wheeler that created the existing refinery of RIL at Jamnagar - considered to be a modern temple of resurgent India.

## Overview of 2006-07

It was the first full year and a historic one for the Company. RPL achieved several significant milestones including a strategic alliance with Chevron, a successful equity issue, and an award-winning debt-raising effort whilst making rapid strides on all fronts of project implementation.

### Strategic alliance with Chevron

In a landmark development during the fiscal year 2006-2007, RIL and Chevron embarked on a strategic partnership in RPL with a view to optimally leverage mutual strengths and exchange best practices to create superior value for stakeholders.

With operations across 180 countries worldwide, refining capacity of over 2 million barrels per day (BPD) and a daily production of over 2.5 million barrels of oil equivalent (BOE), Chevron brings significant expertise in the areas of refining technologies and understanding of the crude and product markets globally.

As per the agreement, Chevron acquired a 5% stake in RPL and also nominated a Director on the Board of the Company. The Agreement provides Chevron with the right to acquire an additional 24% of the equity stake in RPL on conclusion of the collaboration agreements between Chevron and Reliance.

This decision of Chevron to acquire an equity stake in an upcoming refinery project is a reaffirmation of Reliance's strengths in project execution and commissioning coupled with Reliance's talented human resource base. This also heralds India's entry into the league of being a major player in the refinery sector in the world.

### Initial Public Offering

In another significant development, the Company entered the capital markets with an initial public offering (IPO) of equity shares that met with resounding success. As a part of the IPO, the Company offered 135 crore shares, which included a promoters' contribution of 90 crore shares as per SEBI guidelines and a net offer to the public of 45 crore shares at a price of Rs.60 per share, thus raising an aggregate sum of Rs.8,100 crores.

The IPO received an overwhelming response from investors and created several new records in the Indian capital markets. The issue was oversubscribed 51 times and witnessed an aggregate order book of over Rs.143,000 crores (about US$ 32 billion), a record of sorts in the Indian context.

Importantly, the response of institutional investors to the issue, with an oversubscription of 68 times, reaffirmed the confidence of the global investing community in the refinery project and prospects of the Company. Equally encouraging was the response from the retail investors, whose faith in the promoters of the Company was demonstrated by over 21 lac applications received, which was yet another new record for the Indian capital markets.

Ahead of the initial public offerings, RPL made a pre-IPO placement of 45 crore shares to institutional investors, representing 10% of post issue paid-up capital of the Company. The pre-IPO placement met with encouraging response from both domestic and foreign institutional investors. The issue was oversubscribed and shares were placed to 20 institutional investos at an issue price of Rs.60 per share with a lock-in of 1 year as per SEBI guidelines.

Supported by the successful pre-IPO placement of equity and the IPO, the Company has raised equity funds required for the refinery project under implementation.

**Award Winning Debt Raising Efforts**

The year under review also witnessed a path breaking performance by the Company in its debt raising efforts that met with astounding success leading to several accolades from organisations of global repute.

Through a well executed global syndication, RPL raised foreign currency loans of US$ 2.0 billion, making it the "*largest foreign currency financing for any single project from India*". Against an initial target of $1.5 billion, the Company secured commitments for over US$3.4 billion from 52 banks across three continents leading to an oversubscription of 2.3 times the initial facility. Encouraged by the response, RPL raised an additional amount of US$500 million by utilising the excess demand to raise the additional debt required for the Project.

Being the largest foreign currency financing for any single project from India, with the greatest number of banks participating in any single deal in India, the success of RPL's syndicated loan facility attracted global attention. The Company received various awards and recognition , significant amongst which are the following:

- *Sponsor of the Year for 2006 - Project Finance International*
- *Asian Petrochemical Deal of the Year for 2006 - Project Finance International*
- *Asia-Pacific Oil & Gas Deal of the Year for 2006 - Project Finance*
- *Asia Pacific Loan of the Year – IFR*
- *Best Syndicated Loan Asia Pacific – IFR Asia*
- *Best Project Finance Deal - Finance Asia*
- *Best Syndicated Loan - The Asset*
- *Best Project Finance Deal for the Year - The Asset*
- *Best Project Financing - Asia Money*

Apart from the syndicated foreign currency loan facility, the Company has also tied up rupee debt to the tune of Rs.1120 crore. Negotiations are at an advanced stage for tying up of the balance debt with the local banks as well as Export Credit Agencies. As at the year end, the Company has drawn loan funds to the tune of Rs.5,467 crore, towards part-financing the project under implementation.

**Rapid strides on implementation fronts**

The year also witnessed the achievement of several significant milestones on all aspects of project implementation, including a successful transition from its engineering and procurement phase to the construction phase. This has resulted in a dramatic change in the skyline of the project site at Jamnagar, within a short period of 16 months since commencement of project implementation. RPL has hence established a new industry record for refinery implementation and is progressing towards a scheduled completion by December 2008.

## Project Progress Review

During the year, RPL secured all significant approvals required for implementation of the refinery project, including SEZ approvals and notification of the refinery project as an unit in the Jamnagar Special Economic Zone.

On the engineering front, significant progress has been made during the year. While basic engineering work was complete, over 80% of detailed engineering work was also completed. Over 93% of estimated scope of drawings for concrete work and underground piping activities was released to the site, and the development of structural steel drawings was about 70% at the end of the fiscal year. Over 7,500 engineers have been commissioned across the globe at several interconnected locations to deliver world-class engineering output for the project. As a part of the Company's efforts to reduce construction interferences and minimum rework at site, RPL embarked on a massive 3D site modeling effort which is nearing completion and is expected to yield significant benefits in the coming year.

On the procurement front, the achievements are equally appealing. During the year, RPL successfully concluded procurement and contracting activities for all long- lead and critical equipment with their deliveries having commenced at site. In fact, equipment installations are also in progress and have resulted in a dramatic change in the skyline of the project site. A considerable part of other procurement and contracting activities have also concluded. Simultaneously, the Company also made significant progress on the procurement of bulk materials required for the project. Over 80% of the structural steel and considerable part of piping material have been delivered to the site and procurement of other project bulks such as, electrical instrumentation, have been ensured to meet project requirements. Hence the emphasis has now shifted towards vendor monitoring to ensure compliance with quality and delivery commitments.

Reflecting the success of a concerted implementation effort, the project transitioned successfully from its engineering and procurement phase to the construction phase.. This was a remarkable achievement for a project of this magnitude since the transition came about within a year of the project commencement. So far, over 1,025,000 cubic meters of concreting work has been completed and has gained considerable momentum in recent months.

On the back of the development in the civil construction activities, piping and equipment, front generation have also progressed rapidly during the year. Nearly 40,000 tonnes of structural steel fabrication and 30% of pipe fabrication and pipe erection work has also been completed. Overall, the project has achieved and maintained a significant progress trend throughout the year. With a cumulative progress of over 50% being achieved, there is greater confidence on sustaining the momentum and timely completion of the project by December 2008. The timely completion of the refinery project will enable the Company to benefit from an early mover advantage and reap the benefits of emerging opportunities in the sector whereby creating superior value for its stakeholders.

## Industry Overview and Prospects

While crude prices continued to be volatile, demand trend remained positive notwithstanding high oil prices.Tightening product specifications added pressure on an already stretched refining system accompanied by a slow growth in new capacities. Complex refiners gained further from high light-heavy differentials which reflected the change in global crude dynamics.

**Positive demand dynamics**

Supported by robust global economic growth, the strong demand for petroleum products continued, notwithstanding higher prices. The global economy grew by a notable 4.8% in 2006 despite concerns about tighter financial market conditions, high oil prices and inflation. A key contributor to the positive growth trend has been the Asian region, which grew by 8.4%, led by China and India, who clocked an impressive 10.8% and 8.2% growth in their respective economies. A strong growth in the Middle East and CIS countries also contributed positively.

Global demand for petroleum products grew steadily from 83.5 million BPD to 84.2 million BPD in 2006. While demand from Non-OECD countries grew by 1.1 million BPD, driven by China and the Middle East, actual demand from OECD nations shrank on the back of benign weather conditions and substitution of fuel oil by natural gas for power generation during the year.

Supported by a positive economic outlook, the International Energy Agency (IEA) expects to see continued strong growth in global demand for petroleum products and forecasts it to grow by 1.8% to 85.7 million BPD in 2007, driven mainly by China, India and the Middle East. In the medium term, petroleum product demand is expected to clock a compounded annual growth rate of 2% during 2006 - 2010, as per projections of World Refining and Fuel Services, Hart in 2007.

Amidst strong growth, the industry witnessed the continuing trend of a gradual shift in demand in favour of lighter, transportation fuels. During calendar year 2006, aggregate demand for gasoline, middle distillate and jet kero grew by 2.2% as against an average demand growth of only 1.5% for heavier products. Given expectations of continued shift in demand patterns, industry experts forecast light refined products (excluding LPG) to account for about 80% of incremental demand for petroleum products globally over the next 5 years. Strong demand growth is expected to come from gasoline, middle distillate and Jet Kero, which are expected to record a compounded annual growth rate of 2%, 2.4% and 2.8% respectively during 2006-2010. Residual fuel oil is expected to show an insignificant growth of 0.1% per annum during this period.

Meanwhile, the industry witnessed further tightening of product specifications across regions globally. The US rolled out the Ultra Low Sulfur Diesel (ULSD) with the objective of reducing sulfur in diesel to 15 ppm and also phased out MTBE in gasoline during the year. These present new trade opportunities for global complex refiners, like the RPL refinery project, with ultra clean product capabilities.

### Refinery capacity and utilization trends

In contrast to strong demand growth during 2006, global refining capacity grew only marginally, from 84.9 million BPD to 85.7 million BPD, on the back of capacity creep by select players. This resulted in additional pressure on the global refining system that was already stretched with operating rates at about 86%, which is amongst the highest levels witnessed in the last two decades. The average capacity utilization for refineries in North America, Europe and Asia were at 87%, 85% and 87% as against 87%, 86% and 88% respectively during 2005. This set the stage for continued strength in refining margins, well above historical averages, even during 2006.

Looking beyond, IEA estimates a global crude distillation capacity requirement of about 11.6 million BPD towards meeting estimated global demand by 2011. Though several large capacity announcements have taken place in recent years, their progress so far has been quite slow on account of rising costs and manpower shortages. In an already stretched refining environment, it raised concerns on the ability to meet incremental demand growth and improved prospects for refining margins, especially for complex refiners.

### GRM performance

The year witnessed significant volatility in refining margins globally. Though regional benchmarks averaged lower than their respective peaks in 2006, complex margins reached a new high of $13.6 per barrel during the first half, supported by tightened product markets, booming light product cracks and unplanned maintenance by large refiners. However, simple margins dropped on the back of improved utilization, lower turnaround rate and fuel switching in China and US. Consequently, refinery cracking margins for US Gulf coast, Rotterdam, Mediterranean and Singapore averaged only at around $8.4, $4.8, $5.4 and $5.9 per barrel in 2006 as against an average of $9.5, $6.7, $5.6 and $6.5 respectively during 2005.

Also, the crack spreads remained healthy during the year under review. The crack spread for gasoline in Singapore averaged at $11.7 per barrel in 2006 as against $12.6 per barrel in 2005 while that of gasoil was at $15.2 and $14.7 per barrel respectively during this period. Fuel oil crack margins averaged at $(-)12.6 per barrel as against $(-)8.7 per barrel in 2005, leading to lower margins for simple refiners.

Viewed in the context of robust growth in demand, stretched utilisation levels and lagging new capacities, the medium term outlook for refining margins appear positive. Also supportive of the margins is the expectation that the refinery bottleneck is unlikely to disappear before 2011 due to delays in completion of some major new refinery projects. Changes in product specifications are also leading to lower yields of clean products as the refiners re-configure their processes to meet specifications. Complex refiners would gain further from (i) higher premiums for ultra clean products in the western markets arising from tightening product specifications and (ii) changing crude dynamics resulting in wider light-heavy differentials. Being a highly complex refinery, RPL is thus well positioned to capitalise on the positive trends in the coming years.

### Crude price movements and outlook

During the year, crude prices remained volatile and touched a new high, with the WTI peaking at $76.95 per barrel in August 2006. Spurt in crude prices were due to a combination of geopolitical events and unplanned outages of some of the oil production fields.

Though prices softened later to $59 per barrel levels by October 2006, Brent, WTI and Dubai crude prices still averaged at US$65.14, US$66.02 and US$61.52 per barrel for 2006, reflecting an increase of 19%, 17% and 24% respectively over the corresponding levels of 2005. According to ESAI estimates, crude oil prices are expected to remain within the $50 - 60 per barrel range with WTI, Brent and Dubai prices averaging around $59, $57 and $53 per barrel over the next few years.

## Opportunities

The Company sees an exciting opportunity in global refining on the back of continuing strong demand for petroleum products, supported by robust economic growth outlook. Slow growth in capacities due to an ongoing thrust on capacity modernisation and upgrades by existing refiners and a continuing delay in implementation of new capacities are expected to throw open exciting trade opportunities, especially for ultra clean transportation fuels that meet the stringent product specifications of the developed economies. While these would support superior margins, the Company foresees additional margin opportunities in wider light - heavy differentials that can be captured by leveraging its complexity for processing heavier crude varieties. RPL intends to capitalise on these opportunities by leveraging the project's key competitive strengths. .

## Challenges, Risks and Concerns

RPL's project is in implementation phase and the key challenge is to complete the project by December 2008 as planned. The company has largely mitigated the risks associated with the project in the