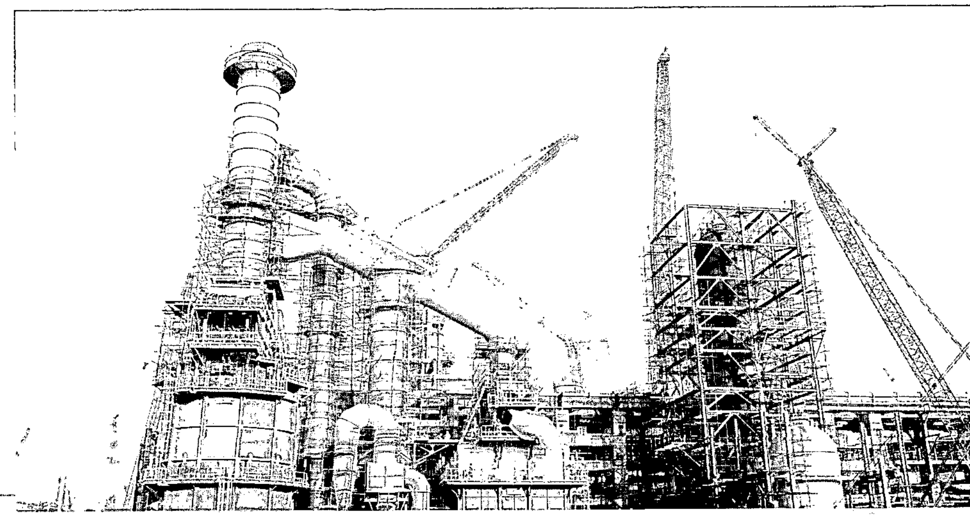
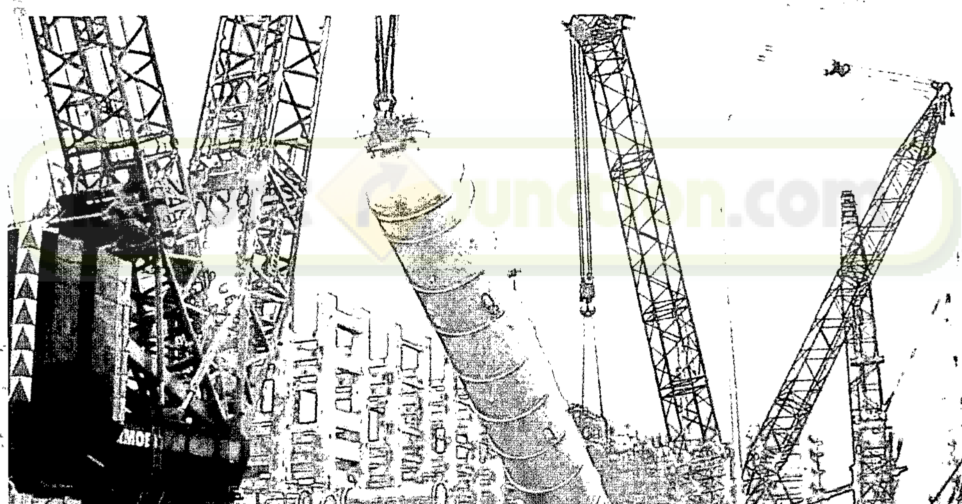
Refining Life. Redefining Growth.

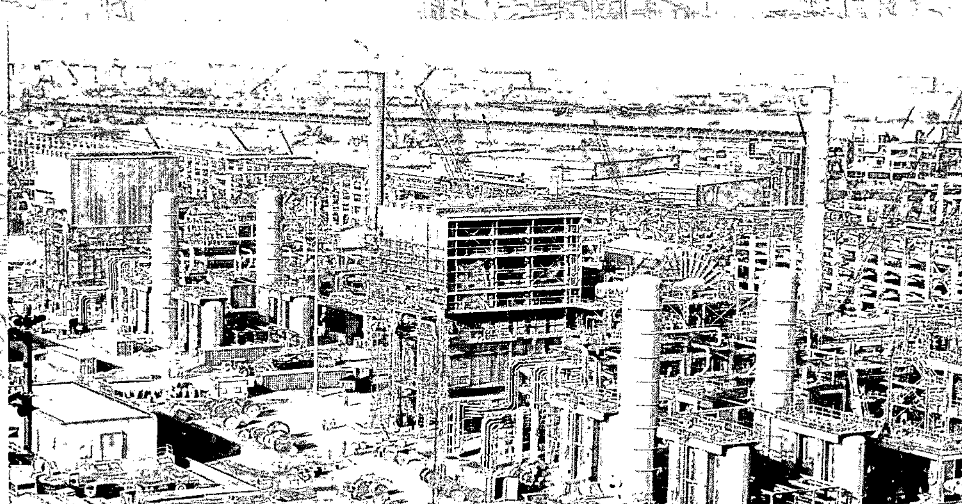
Annual Report 2007-2008

Reliance
Petroleum Limited

Redefining Project Execution







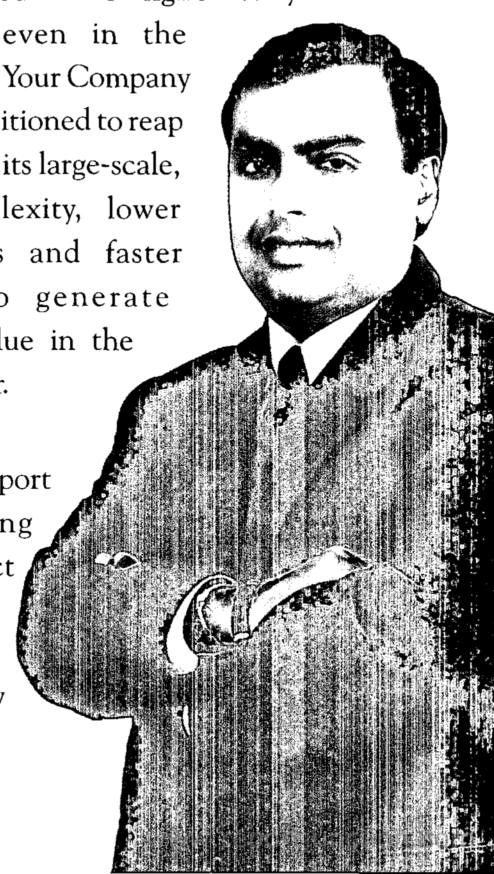
Letter to Shareholders

Dear Shareowners,

I am delighted to share with you the Company's progress in setting up its complex refinery in a Special Economic Zone at Jamnagar.

Your Company has accomplished an overall progress of 90% with comprehensive advancement on all implementation fronts surpassing several significant milestones. The engineering, procurement and contracting activities were completed during the year, while the construction progress for the complex crossed 80% mark. Deliveries and installation of over-dimensional cargos have been completed, while bulk materials are nearing completion. I expect that the refinery will commence operations ahead of December '08. The likely completion of the refinery in less than 36 months is set to create a new record for project implementation in the global refining sector. This is a significant achievement when viewed in the context of worldwide resource crunch that has resulted in extraordinary delays and cancellation of several new and expansion projects by refiners across the world.

During the last year, the Indian economy remained buoyant and posted a growth rate of just under 9%, enough to stimulate demand and growth. I believe that the growth momentum of the last four years is unlikely to suffer overtly. The demand for energy continues unabated, with China and India easily taking up any slack that might have resulted from a slowdown in the West. The global refining industry fundamentals remain strong with robust demand, tight product supplies and slow growth in new capacities. The industry has withstood the pressures of high oil prices and perceived the threat of slower economic expansion, led by the United States. With global refining system remaining stretched and continuing delays in new capacities, the outlook for refining industry remains positive. Complex refiners will gain further from expected wide light-heavy differentials even in the medium term. Your Company is thus well positioned to reap the benefits of its large-scale, higher complexity, lower capital costs and faster schedule to generate significant value in the refining sector.



In order to support commissioning of the project ahead of schedule, your Company has already begun the start-up planning for the refinery and the operations preparedness. Once commissioned, Jamnagar will be the **"Refining Capital of the World"** and the RPL refinery will become the 6th largest refinery in the world.

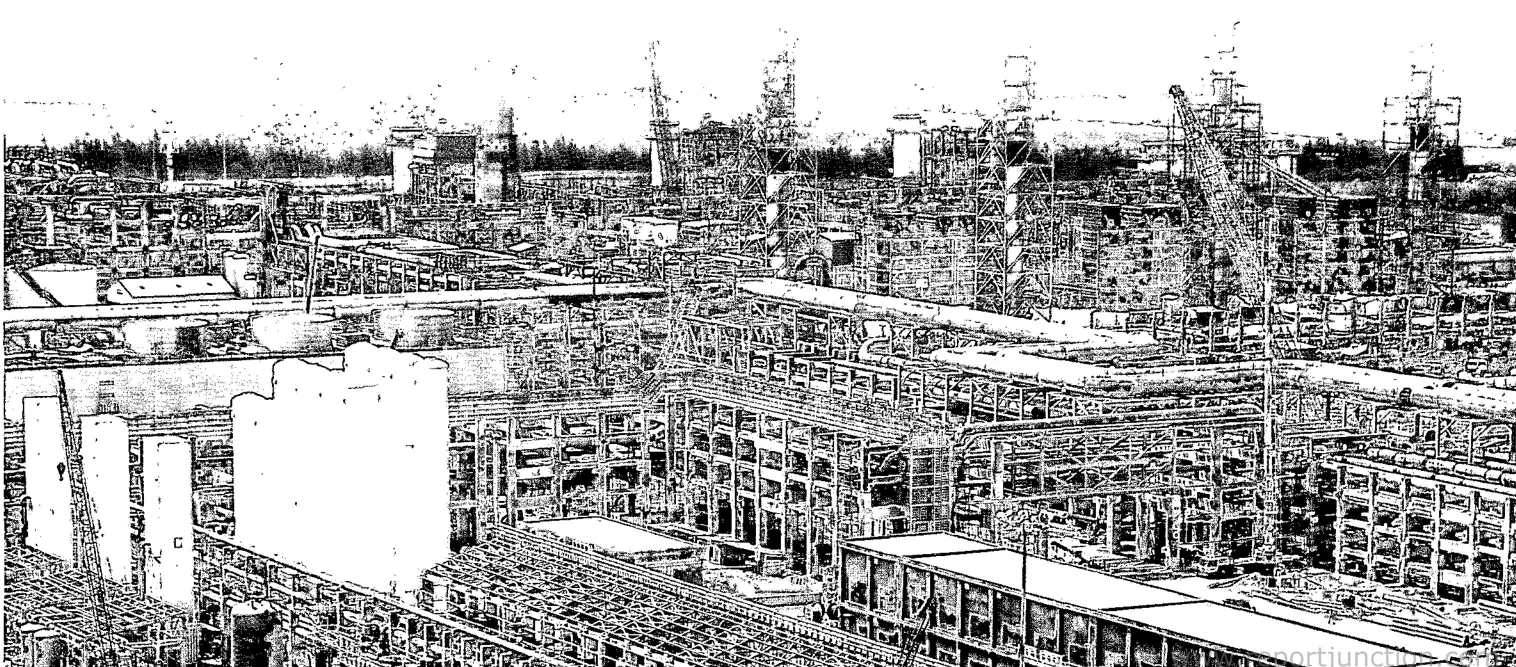
Your Company has also completed the long-term debt financing for the project and in all, contracted term debt to the tune of Rs. 15,750 crore at costs much lower than comparable projects anywhere in the world.

Your Company is poised to benefit from emerging opportunities in the sector to create superior value for its shareholders.

I would like to take this opportunity to express my gratitude to the Board of Directors, bankers, employees, suppliers and the shareholders for their unstinted support and the confidence reposed on us.

With best wishes
Sincerely,

Mukesh D. Ambani
Chairman



Company Information

Board of Directors

Mukesh D. Ambani – Chairman
Hital R. Meswani
P. M. S. Prasad
Yogendra P. Trivedi
Mahesh P. Modi
Atul S. Dayal
Bobby Parikh
Jagjeet Singh Bindra
(Upto October 23, 2007)
Michael Warwick
(From July 18, 2007)
Joffrey R. Pryor
(From January 15, 2008)
John R. Digby
(Alternate Director for Joffrey R. Pryor)

Company Secretary

Ramesh Kumar Damani

Board Committees :

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

Chaturvedi & Shah
Deloitte Haskins & Sells

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.
E-mail: 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
E-mail: rplinvestor@karvy.com
http://www.karvy.com

Third Annual General Meeting
on Saturday, June 7, 2008 at 9.30 a.m.

Contents

Notice

Notice is hereby given that the Third Annual General Meeting of the Members of RELIANCE PETROLEUM LIMITED will be held on Saturday the 7th June, 2008 at 9.30 a.m., at Motikhavdi, P.O. Digvijaygram, District Jamnagar 361 140, being the place where the Registered Office of the Company is situate, to transact the following businesses:

Ordinary Business:

1. To consider and adopt the audited Balance Sheet as at March 31, 2008 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. Chaturvedi & Shah, Chartered Accountants and M/s. Deloitte Haskins & Sells, 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 will 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 an Ordinary Resolution:

   "RESOLVED THAT Mr. Michael Warwick, who was appointed as an Additional Director of the Company under 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 liable to retire by rotation."

By Order of the Board of Directors

Ramesh Kumar Damani
Company Secretary

Mumbai
April 16, 2008

Registered Office:

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

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, Mr. Atul S Dayal and Mr. Bobby Parikh, 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 June 2, 2008 to Saturday June 7, 2008 (both days inclusive).

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

Item No. 4

The Board of Directors of the Company (the Board), under Section 260 of the Companies Act, 1956(the Act) and Article 135 of the Articles of Association of the Company, appointed Mr. Michael Warwick as an Additional Director of the Company with effect from July 18, 2007.

In terms of Section 260 of the Act, Mr. Michael Warwick holds office upto the date of this Annual General Meeting.

The Company has received a notice in writing from a member along with a deposit of Rs. 500/- proposing the candidature of Mr. Michael Warwick for the office of Director of the Company under Section 257 of the Act.

Mr. Michael Warwick is not disqualified from being appointed as Director under Section 274(1)(g) of the Act and has complied with the requirement of obtaining the Director Identification Number in terms of Section 266A of the Act. The Company has received the requisite Form 'DD-A' from Mr. Michael Warwick, in terms of Companies (Disqualification of Directors under Section 274(1)(g) of the Companies Act, 1956) Rules, 2003 confirming his eligibility for such appointment.

A brief resume of Mr. Michael Warwick, nature of his expertise in specific functional areas and names of companies in which he holds directorships and memberships/chairmanships of Board Committees, as stipulated under Clause 49 of Listing Agreement with the Stock Exchanges in India, are provided in Report on Corporate Governance forming part of the Annual Report.

Except Mr. Michael Warwick, no Director of the Company is, in any way, concerned or interested in this resolution.

By Order of the Board of Directors

Ramesh Kumar Damani
Company Secretary

Mumbai
April 16, 2008

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") has made substantial progress during the year in implementation of its large and complex refinery, being built at Jamnagar in Gujarat on the west coast of India. RPL was set up with the objective of creating significant value by harnessing the emerging opportunities in the global energy sector, arising out of several years of under investment in refining capacity.

The Company is setting up a 580,000 barrels of crude oil per stream day (BPSD) greenfield petroleum refinery and 0.9 million tonnes per annum polypropylene plant in a Special Economic Zone (SEZ) at Jamnagar. On completion, the RPL refinery will be the sixth largest in the world with a Nelson Complexity Index of 14.0, which is amongst the highest amongst similar large refineries in the world. The refinery and petrochemical complex is being set up at a capital cost of Rs. 27,000 crores.

RPL is a subsidiary of Reliance Industries Limited (RIL), which is India's largest private sector company on all major financial parameters. RIL is a global Fortune 500 company with leadership position in all its key businesses, both in India and globally. RPL benefits further from its strategic alliance with Chevron Corporation USA, a global super major in the energy sector.

RPL refinery implementation ahead of schedule; Well poised to create superior shareholder value

During the year, RPL has set a blistering pace on all fronts and achieved 90% overall progress in implementation of its world-class, complex refinery at Jamnagar in Gujarat. RPL expects to complete the refinery project ahead of schedule. This is despite global shortage of engineering and construction resources and vendor manufacturing capacities that are resulting in extraordinary delays and cancellation of several new and expansion projects by refiners across the world. The completion of the RPL refinery in less than 36-months will be a new record for project implementation of similar large refineries across the world.

In a positive industry environment that augurs well for large and complex refineries, RPL is well poised to create enhanced value for its shareholders by completing the project ahead of schedule and at capital cost much lower than that of similar refineries and further leveraging its synergy with RIL.

- The RPL refinery is being set up at a capital cost of less than US$ 10,000 per barrel per day (BPD). This is substantially lower than the capital cost being incurred by other refineries globally. According to International Energy Agency (IEA), capital cost for new refinery projects is well in excess of US$ 20,000 per barrel per day. When adjusted for complexity, the RPL refinery fares even better. Its capital cost of US$ 665 per complexity barrel per day is much lower than the average capital cost of US$ 2,600 per complexity barrel per day for new refinery projects globally.
- The RPL refinery will be one of the most complex refineries in the world with a Nelson Complexity Index of 14.0. This will enable the refinery to process various 'challenged crude' varieties to produce superior quality products that meet stringent specifications and command price premiums. This is a significant competitive advantage in the current industry landscape of increasingly heavy and sour new crude finds, which have led to wide light heavy differentials.
- The RPL refinery is located adjacent to the existing refinery and petrochemicals complex of RIL, which is amongst the largest and most efficient in the world, thus offering significant synergies. Through exchange of best practices and leveraging mutual strengths, RPL will gain significantly in the areas of operational efficiency, logistics, cost effective crude sourcing, optimised product placement and risk management.
- Finally, the RPL refinery will gain from an early mover advantage in a market that is being considered by experts as an 'extended golden era of refining', resulting in high gross refining margins.

Overview of the Implementation Progress

The Company has made rapid strides on all implementation fronts during the year. The overall project progress catapulted from about 50% to 90% this year. In doing so, the Company has surpassed several significant milestones, including completion of engineering, procurement and contracting activities as well as substantial completion of equipment deliveries and their installation at site. The year also witnessed rapid progress in construction activities, leading to a dramatic change in the skyline of the project site at Jamnagar.

During the year, the project engineering activities were completed with release of all required drawings for concreting, structural steel works, underground and above-ground piping as well as electrical and instrumentation activities. Successful completion of this massive engineering effort in 28 months reflects the success of a massive team effort that involved over 7,500 engineering experts, who worked from several interconnected locations across the world.

The achievement on the procurement front is equally significant. All procurement and contracting activities for equipments and bulk materials have been completed. Deliveries of key equipment and their installation gained significant momentum during the year. The Company has so far received over 5,350 equipments, including several over dimensional consignments (ODCs) and super heavy equipments, from vendors across the world. This represents over 93% of equipment scope for the project. Deliveries of bulk materials, including pipes, fittings as well as electrical and instrumentation bulks matched the pace of equipment deliveries and their installation. Overall procurement progress now stands at 99% and focus has shifted towards achieving a close-out and vendor follow-up for residual deliveries.

Having transitioned successfully to the construction phase during the last year, construction activities gained enhanced momentum during the year. The Company achieved near completion of civil construction with 2.0 million cubic meters of concreting works done at site. Over 4,000 equipments, including several super heavy equipments, have already been installed and are at various stages of completion and testing. Over 95% of structural steel fabrication work, 74% of structural erection and 94% of underground piping works are now complete. Substantial progress has been achieved in the areas of above-ground pipe fabrication and erection as well. The construction activities are at peak and RPL is fully geared to sustain construction on fast track. Simultaneously, considerable progress has been made on the start-up planning and operations preparedness activities to support commissioning of the refinery.

Project Financing

During this year, the Company completed its long term debt borrowing program by tying up the balance term debt required for the refinery project. The Company raised further rupee term debt of Rs. 900 crore and also committed foreign currency debt of US$ 500 million with commercial banks and US$ 775 million with Export Credit Agencies during the year. With this, the Company has completed long term debt financing for the Project and in all, has contracted term debt to the extent of Rs. 15,750 crore, as envisaged.

Industry Overview and Prospects

The sector fundamentals remain intact and augur well for complex refiners like RPL. During the year, the industry environment remained encouraging with robust demand, tight product supplies and slow growth in new capacities in an already stretched refining system - all of which resulted in superior refining margins for most part of the year. This was despite a rising and volatile crude price environment that resulted in crude prices climbing inexorably to peak above $100 per barrel levels. Complex refiners gained further from sustained wide light-heavy differentials that reflected changing global crude dynamics.

Demand Resilience despite high oil prices

The global demand for petroleum products grew strongly from 84.90 million BPD to 86.0 million BPD, reflecting a growth of 1.3% in 2007. While the demand from Non-OECD countries grew by 1.2 million BPD, driven primarily by China, Middle East and Latin America, the actual demand from OECD nations shrank by 0.2 million BPD due to sluggish economic activity, higher oil prices and mild weather conditions, particularly in the pacific region.

Looking ahead, even with slower economic expansion outlook, the IEA expects to see continued strong growth in global demand for petroleum products and forecasts it to grow by 1.5% to 87.2 million BPD in 2008. A substantial part of the growth will be driven by increased consumption in China, India and the Middle East that are witnessing continued strong economic growth. Importantly, the medium term outlook remains strong with demand for petroleum products expected to grow at a compounded annual rate of 2.2% during 2008 to 2012. IEA expects the actual consumption to increase to 95.8 million barrels per day in 2012 (Source: IEA Mid Term Outlook - July 2007).

Transportation fuels driving the growth

The shift in demand towards cleaner and lighter transportation fuels continued during the year. Aggregate demand for gasoline, diesel and jet-kero grew by 1.2% as against a marginal decline in consumption of fuel oil during 2007. This trend is likely to continue even in the future. According to World Refining and Fuel Service - Hart, gasoline, diesel and jet-kero are expected to record a compounded annual growth rate of 1.7%, 2.5% and 2.2% respectively till

2010. Residual fuel oil is expected to see sluggish growth during this period due to continued substitution of natural gas in power generation and heavy industrial applications.

Greening of Fuels

Meanwhile, the trend of tightening product specifications continued in several regions of the world. A significant milestone will be reached in 2009, when most countries in the major oil consuming regions like the EU and Asia, will mandate a 10 ppm sulphur content in both diesel and gasoline. The current standard for sulphur content in the United States is 15 ppm for diesel and 30 ppm for gasoline and that for Canada is 15 ppm for both. Europe has further reduced the maximum limit for sulphur content in Gasoil from 2000 ppm to 1000 ppm from January 2008. These present new trade opportunities for complex refiners, like RPL.

Refinery capacity and utilization trends

Meanwhile, in contrast to strong demand growth, global refining capacity grew only marginally, from 85.1 million BPD to 85.3 million BPD in 2007, as per Oil & Gas Journal Worldwide Report. The increase in capacity was largely on account of capacity creep by select players, according to Oil & Gas Worldwide Refinery Report. This resulted in additional pressure on the global refining system that was already stretched with an operating rate of 85.3%. The average capacity utilization for refineries in North America, Europe and Asia was at 86.2%, 83.9% and 85.7% during 2007, as against 87.0%, 85.0% and 87.0% respectively in 2006. This set the stage for continued strength in refining margins.

Looking beyond, the IEA estimates additional crude distillation capacity requirement of about 9.7 million BPD towards meeting the estimated global demand by 2012. 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 resource shortages. This augurs well for early movers like RPL.

GRM performance

The year witnessed significant volatility in refining margins globally. The refining margins peaked during the second quarter due to booming light product cracks and tightened product markets but dropped during the third quarter on the back of higher crude prices and reduced cracks. The fourth quarter witnessed a further fall in US Gulf Coast margins, but Singapore complex margins increased on the strength of record high jet-kero and gas oil cracks. Though averaged a shade lower than the previous year, global benchmarks remained above historical averages. These higher complex margins were supported by tightened product markets, booming light product cracks and unplanned maintenance by large refiners.

The medium term outlook for refining margins appear positive due to continuing robust growth in demand, limited conversion capacity, stretched refinery utilization and lagging new capacity build-up. Complex refiners would gain further from (i) higher premiums for ultra clean products in the western markets and (ii) changing crude dynamics sustaining the wide light-heavy differentials.

The average light heavy differentials remained high at around US$ 5.4 per barrel during the year as against US$ 5.6 per barrel during last year. The outlook remains positive given the likely slump in production of light crude volumes and with incremental production being in the "challenged" category. This will immensely benefit complex refiners, like RPL, who have the ability to process heavy and sour crudes as well as produce value added products.

Crude price movements and outlook

During the year, crude prices continued to rise and touched a new high, with the WTI peaking at $110.4 per barrel in March 2008. Spurt in crude prices were due to a combination of geopolitical events and unplanned outages of some of the oil production fields. The prices continued to hover at historically high levels with Brent, WTI and Dubai crude prices averaging at US$82.8, US$81.6 and US$76.5 per barrel during the year, reflecting an increase of 29%, 26% and 25% respectively over the corresponding levels of previous year. According to oil price forecast by various analysts, crude oil prices are expected to remain within the $70 - 96 per barrel range, which is a significant upward revision from the earlier estimates.

Opportunities and Challenges

The Company sees an exciting opportunity in global refining on the back of continuing strong growth in demand, slow growth in capacities and upgrades as well as tightening product specifications. While these would support superior margins, the continuing wide light-heavy differentials would be a margin booster for complex refiners, like RPL. The likely completion of its refinery project ahead of schedule at significantly lower capital costs and its potential synergies with RIL provides RPL with an opportunity to further enhance value. The challenge ahead of RPL is to ensure seamless transition of the refinery project from its construction phase to a start-up phase. RPL will leverage the learnings and experience of RIL and ensure the same.

Internal Controls

RPL has a defined organization structure and has developed well documented policy guidelines with predefined authority levels. An extensive system of internal controls to ensure optimal utilization of resources and accurate reporting of financial transactions and strict compliance with applicable laws and regulations has also been implemented. The