BOARD OF DIRECTORS

Shri Subir Raha	Chairman (Up to 24th May, 2006)
Shri R. S. Sharma	Chairman (From 30th May, 2006)
Dr. A. K. Balyan	
Shri N. K. Mitra	
Shri Sunjoy Joshi	Government Director (Up to 31st July, 2006)
Shri Prabh Das	Government Director (From 2nd June, 2006)
Shri V. P. Joy	Government Director (Up to 17th February, 2006)
Shri Arun Balakrishnan	(Up to 13th July, 2006)
Shri C. N. Rao	(Up to 1st September, 2005)
Shri S. Roy Choudhury	(From 1st September, 2005)
Shri M. P. Modi	Nominee of ICICI Bank Ltd. (Up to 17th July, 2006)
Shri G. M. Ramamurthy	Nominee of IDBI Bank Ltd.
Shri Girish M. Dave	(Up to 26th July, 2006)
Shri R. Rajamani	Managing Director (From 27th April, 2006)
Shri L. K. Gupta	Director (Finance) (From 12th May, 2006)

VICE PRESIDENT (FINANCE) & COMPANY SECRETARY

Shri L. K. Gupta (Up to 12th May, 2006)
Shri Dinesh Mishra, (Company Secretary - Officiating, from 5th June, 2006)

REGISTERED OFFICE AND REFINERY SITE

Mudapadav, Kuthethoor P.O. Via Katipalla,
Mangalore - 575 030, Karnataka
Tel. No.: 0824-2270400
Website: www.mrpl.co.in
INVESTOR RELATIONS CELL
Maker Tower, 'F' wing, 16th Floor,
Cuffe Parade, Mumbai - 400 005.
E-mail : investor@mrplindia.com
Tel : 022-2217 3000, Fax : 022-2217323

AUDITORS

M/s. Varma & Varma, 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.

REGISTRAR AND TRANSFER AGENTS

MCS Limited, Harmony,
1st Floor, Sector - 1, Khanda Colony,
New Panvel (West), Dist : Raigad,
Maharashtra, Pin - 410 206
Tel. No.: 2749 2003 - 10
E-mail: mcsmum@bom2.vsnl.net.in

DIRECTORS' REPORT FOR THE FINANCIAL YEAR 2005 - 2006

Dear Members,

1. Your Directors are pleased to present the 18th Annual Report of the Company, together with the audited accounts for the financial year ended 31st March, 2006.

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

- Highest-ever capacity utilisation of 125% - which is also the highest among all refineries in India
- Lowest-energy consumption among all refineries with similar complexity in India
- Highest-ever turnover of Rs. 28,243 crore and the highest-ever export earnings of Rs. 11,917 crore
- Lowest-ever Interest & Finance cost of Rs. 188 crore; the long term debt-equity ratio further improved to 0.87:1
- Safety record: 843 days of reportable accident-free days as on 31st March, 2006 (972 days as on 8th August, 2006)

1.1 **FINANCIAL PERFORMANCE**

(Rs in crore)

	Year ended 31st March, 2006	Year ended 31st March, 2005
Turnover	28,242.86	20,692.55
Profit before Depreciation Interest and Tax	1,190.89	2,099.16
Interest and Finance Charges	187.77	229.62
Gross Profit /(Loss) after interest but before Depreciation and Tax	1,003.12	1,869.54
Depreciation and Amortisations	380.54	408.67
Provision for wealth Tax	0.09	0.04
Current Tax	35.77	71.45
Previous Year's Tax adjustment	–	(2.85)
Deferred Tax	215.11	512.47
Profit after Tax	**371.61**	**879.76**
Balance of Profit/(Loss) brought forward from previous year	52.78	(627.14)
Surplus available for appropriation	**424.39**	**252.62**
Appropriations:		
Proposed dividend on Preference Shares (Rs. 9,186)	0.00	0.00
Proposed Dividend on Equity Shares	122.70	175.26
Tax on Dividend	17.21	24.58
Balance carried to Balance Sheet	284.48	52.78
Total	**424.39**	**252.62**

1.1.1 Your Company has achieved a turnover of Rs. 28,243 crore, earning a net profit of Rs. 372 crore (down from Rs. 880 crore). The reduction in the net profit can be attributed to

(i) Discounts on products [MS, HSD, Kerosene (PDS) and LPG (Domestic)] fixed by PSU OMCs (IOC/ BPC/ HPC). The company is in active discussions with the Ministry of Petroleum & Natural Gas (MOP&NG) to seek a more equitable approach on such discounts taking into consideration that MRPL exports more than half of its production.

(ii) Reduced product offtake (43% against 55%) by the OMCs in the domestic market, which has higher margins than exports.

1.2 **DIVIDEND**

Inspite of the oil refining industry passing through very difficult times with an adverse impact on profitability and formidable market challenges, MRPL has been able to earn a net profit after tax of Rs. 371.61 crore without any extraordinary income. Taking an overall prudent view, the Board has decided to recommend a reduced dividend of 7% as against 10% in 2004-2005, on the equity shares. This is in the long term interest of the Company and of its shareholders. The dividend will absorb Rs. 122.7 crore, excluding Rs. 17.21 crore as tax on dividend.

1.3 **OPERATIONAL PERFORMANCE**

During the financial year 2005-06, the refinery processed a record throughput of 12.12 million metric tonne (MMT) crude oil achieving 125% capacity utilisation (up 2.28% from 11.85 MMT). It produced 11.34 MMT of finished products (up 2.44% from 11.07 MMT) and despatched 11.50 MMT of finished products (up 3.99% from 11.059 MMT).

1.4 **EXPORTS**

Your Company exported products (motor spirit, naphtha, reformate, HSD, ATF, VGO & FO) amounting to Rs. 11,917 crore during the year (up 92.49% from Rs. 6,191 crore). In terms of volume, exports amount to 51% of total despatches (5.86 MMT out of total dispatches of 11.50 MMT).

1.5 **MARKETING**

Various initiatives taken in the area of direct marketing have started yielding results and the company has secured entry into the HSD business of some very large consumers. The direct marketing sales at Rs. 1,411 crore (Rs. 460 crore) achieved almost 207% growth during the year.

(Figures in brackets appearing in above paragraphs pertain to the previous year).

2. AWARDS AND RECOGNITIONS

Your Company has received the following awards and recognitions:

(a) The Jawaharlal Nehru Centenary Award for Lowest Energy Consumption amongst PSU Refineries for the year 2004-05. This is for the second year in a row. The award is based on the annual performance of the refineries in the area of energy consumption, measured in terms of Specific Energy Consumption (MBtu/Bbl/NRGF).

(b) Gold Award by Greentech Foundation, New Delhi for outstanding achievement in Safety Management for the year 2004-05. Your Company has already been accredited with the 5-Star Safety Rating by the British Safety Council.

(c) Environment Excellence Award from Greentech Foundation, for the Year 2004-05.

(d) Golden Peacock Environment Management Award for the Year 2004-05 from World Environment Foundation, New Delhi.

(e) National Safety Award for the year 2004 from the Ministry of Labour, Government of India.

(f) Gold Award by the Department of Industries and Commerce, Government of Karnataka for registering highest revenue earnings through exports during 2004-05. This is for the third year in a row.

3. IMPROVED CREDIT PROFILE

MRPL is ranked 34th on composite basis and at 8th on net sales basis amongst all Indian Companies, as per the ET 500 ranking [source: ET 500 – February 2006]. It continues to enjoy "A1+" rating from ICRA, indicating highest safety for its short term borrowing programme.

4. INVESTMENTS / GROWTH PLANS

4.1 MRPL – MANGALORE

4.1.1 Implementation of the ISOM Project for upgradation of facilities to produce motor spirit (petrol) of Euro III / IV quality and the mixed xylene project for producing value-added mixed xylene, are progressing on schedule and are expected to be commissioned in the third quarter of the current financial year, 2006-07.

4.1.2 The implementation of the Refinery Upgradation and Expansion Project will enhance refining capacity to 15 MMTPA (presently the rated capacity is 9.69 MMTPA) and enable production of new value-added products. This will also improve the refining margins, due to improved distillate yield in lieu of low-value black oil pool. Engineers India Ltd. (EIL) has been appointed as Project Management Consultant (PMC) for implementation of this project. The project is expected to be completed in 48 months time, (by June 2010).

4.2 **KAKINADA REFINERY AND SEZ**

Detailed feasibility studies for setting up a 7.5 MMTPA export–oriented Refinery at Kakinada Special Economic Zone, where MRPL is one of the promoters and also likely to be an Anchor industry, are under progress.

4.3 **RAJASTHAN REFINERY**

MRPL, being the Government nominated buyer for the crude to be produced by Cairn-ONGC Unincorporated Joint Venture (UJV) in Rajasthan, is considering setting up a 150,000 bpd well-head refinery. This would be preceded by a trunk pipeline to evacuate the crude to the coast, for shipping out. EIL has prepared the Detailed Feasibility Report (DFR) and the same is under appraisal by an independent Financial Consultant. The setting up of this refinery will largely depend on the availability of crude oil from Rajasthan at an economically viable price, as well as attractive fiscal incentives from the State Government to make the project economically viable.

4.4 **MANGALORE MEGA-PROJECTS**

ONGC-MRPL have received in-principle clearance from MOP&NG to proceed with the mega-projects, covering the Aromatics and Olefin complex, new 15 MMTPA refinery, LNG imports C2 C3 extraction & regasification, power generation and participation in Mangalore Special Economic Zone. MRPL will be the implementing agency for the projects, with decision and funding support from the parent, ONGC. In line with the MoU signed by ONGC, Govt. of Karnataka through Karnataka Industrial Areas Development Board (KIADB) and Kanara Chamber of Commerce & Industry (KCCI) and Infrastructure Leasing and Financial Services Limited (IL&FS), a Special Purpose Vehicle (SPV) Company, in the name of Mangalore SEZ Ltd, has been incorporated. The MRPL and ONGC Boards have already approved the setting up of Aromatic Complex at a cost of Rs. 4,852 crore, through a separate SPV Company in the Mangalore SEZ. DFR for the Olefin Complex has been completed by EIL and the same is under independent financial appraisal. The proposal to build a new export-oriented refinery of 15 MMTPA capacity at Mangalore SEZ, is also under consideration.

5. DIRECTORS

5.1 Consequent upon the completion of the tenure of service of Shri Subir Raha, as C&MD of ONGC on 24th May, 2006, ONGC has nominated Shri R. S. Sharma, as Non-Executive Chairman of your company. The Board places on record its highest appreciation for the valuable contributions made by Shri Subir Raha, during his tenure as Chairman, in turning around your Company from a virtually sick company to a strong, profitable and dividend paying company.

5.2 The President of India, has appointed Shri R. Rajamani as Managing Director of your Company w.e.f. 27th April, 2006, and Shri Lalit Kumar Gupta as Director (Finance) of your Company w.e.f. 12th May, 2006.

5.3 The President of India has nominated Shri Prabh Das, Joint Secretary (Refinery), Ministry of Petroleum & Natural Gas, Government of India as a Government Director on the Board of MRPL in place of Shri V. P. Joy. Shri Sunjoy Joshi, Government Director on the Board of MRPL has resigned vide his letter dated 31st July, 2006 on completion of his Central tenure at the MOP&NG. The Board places on record its deep appreciation for the valuable contributions and guidance provided by Shri Sunjoy Joshi and Shri V. P. Joy during their tenure as Directors of the Company.

5.4 ICICI Bank has withdrawn the nomination of Shri M. P. Modi w.e.f. 17th July, 2006 from the Board of the Company. The Board places on record its deep appreciation for the valuable contribution and guidance provided by Shri M. P. Modi during his tenure as the Chairman of the Audit Committee and Director of the Company.

5.5 HPCL has withdrawn the nomination of Shri C. N. Rao from the Board of the Company w.e.f. 1st September, 2005 and has nominated Shri S. Roy Choudhury (Director - Marketing of HPCL) in his place. HPCL has also withdrawn the nomination of Shri Arun Balakrishnan from the Board of the Company w.e.f. 13th July, 2006. Shri Girish Dave has resigned from the Board of the Company w.e.f. 26th July, 2006. The Board places on record its deep appreciation for the valuable contribution and guidance provided by Shri C. N. Rao, Shri Arun Balakrishnan and Shri Girish Dave during their tenure as Directors of the Company.

5.6 In accordance with the provisions of the Companies Act, 1956 and Articles of Association of the Company, Shri R. S. Sharma and Shri S. Roy Choudhury will retire by rotation at the 18th Annual General Meeting of the Company. Shri R. S. Sharma and Shri S. Roy Choudhury, being eligible, offer themselves for re-appointment.

5.7 Brief resumes of the Directors seeking 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.

5.8 The Company has approached the Government of India (Ministry of Petroleum & Natural Gas) for advising the names of four Independent Directors to be appointed on the Board of the Company.

6. DIRECTORS' RESPONSIBILITY STATEMENT

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

(a) The Annual Accounts have been prepared in compliance of the applicable Accounting Standards together with proper explanations relating to material departures;

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

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

(d) The Annual Accounts are prepared on a "Going Concern" basis.

7. FIXED DEPOSIT

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

8. AUDITORS

8.1 The Statutory Auditors of your Company are appointed by the Comptroller & Auditor General of India (C&AG). M/s. Varma & Varma, Chartered Accountants were appointed as Statutory Auditors of the Company for the Financial Year 2005 - 06 by C&AG.

8.2 The review and comments of the C&AG at Annexure II form part of this Report.

9. CORPORATE GOVERNANCE

9.1 The Company has complied with all the mandatory provisions of Clause 49 of the Listing Agreement relating to the Corporate Governance requirements. The Annual Report contains a separate section on the same.

9.2 As required under the said provisions, the Company has obtained the Certificate from the Auditors of the Company, which is annexed to and forms part of the Annual Report.

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

10. 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' forms part of this Report.

11. 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.

12. INDUSTRIAL RELATIONS

The Company continues to enjoy a cordial and harmonious relationship with its employees.

13. COMMUNITY DEVELOPMENT

As a socially responsive organisation, your Company is committed to the well-being of the communities in the neighbourhood of the refinery. The various development activities taken up by the Company include the construction of approach roads, assistance for expansion of the existing school buildings, free artificial limb camps, eye camp, general medical camps in the neighboring villages, drinking water supply schemes, scholarships to meritorious students in schools around the area and the providing of computers to rural schools. The MRPL, CBSE school, which gets a revenue grant from your Company, provides education at nominal cost to about 950 children including more than 600 children from the villages around the refinery. MRPL Hospital serves the families around the refinery at nominal charges.

14. OFFICIAL LANGUAGE:

The Company is implementing the Official Language Policy as per the Annual Programme given by the Department of Official Language, Ministry of Home Affairs, Government of India. Programmes such as 'Hindi fortnight' and 'Hindi Day' were observed and 'Kavi Sammelan' was organised. Hindi Language training to employees and Hindi workshops were held. Some manuals and standard formats were made bilingual. Fifty computers were loaded APS bilingual software. Employees participated in TOLIC level Hindi competitions held in September 2005 and won many prizes.

15. ACKNOWLEDGEMENT

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

15.2 Your Directors recognise and acknowledge the continuing co-operation of the New Mangalore Port Trust, and the members of the Oil Industry.

15.3 Your Directors appreciate the support received from Financial Institutions and Banks. Your Directors recognise the support received from all other stakeholders such as suppliers of crude oil and other inputs, vendors, contractors, transporters and others.

15.4 Your Directors acknowledge the unstinted support provided by the parent company, ONGC.

15.5 Your Directors thank the Shareholders for the confidence reposed by them in the Company.

15.6 Your Directors wish to place on record their sincere appreciation for the sustained and dedicated efforts put in by all the employees.

15.7 Finally, your Directors recognise the patronage extended by the ever-increasing community of valued customers and assure them the best possible satisfaction, at all times.

For and on behalf of the Board

(R.S.Sharma)
Chairman

Place: New Delhi
Date : 8th August, 2006

ANNEXURE I TO THE DIRECTORS' REPORT

A. CONSERVATION OF ENERGY

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

a) Major energy conservation & resource optimisation measures adopted/ implemented during the year

i) Variable frequency drives were installed and commissioned for 119 LV and 3 MV drives, thus reducing power consumption.
ii) PSA Adsorbents were changed in Hydrogen-2 and Catalytic Reforming Unit-2 units to improve Hydrogen recovery.
iii) Heat recovery from splitter bottoms for feed preheating at Hydrocracker-1 unit.
iv) Heat recovery from product diesel for feed preheating at Hydrocracker-2 unit.
v) Inter-connection of Hydrocracker-1 & 2 stabilisers was carried out. This inter-connection reduced Light Hydrocarbon (including LPG) flaring & minimised unit throughput-reduction in Hydrocracker units whenever stabiliser compressor maintenance was necessary.
vi) Hydrogen rich Hydrocracker Reactor low-pressure separator off-gas was routed to Gas Oil Hydro-desulfurisation Unit as make-up-gas, resulting in conserving precious hydrogen.
vii) Double seals being provided for new floating roof tanks (2 MS, 1 Mixed Xylene, 2 HSD, 1 SKO), which are under construction.

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

i) Crude pre-heating by the recovery of Fuel Oil product heat in Crude Distillation Unit-2.
ii) Steam lines insulation improvement.
iii) Modification is being carried out to route Phase-2 Amine flash column hydrocarbon vapors to Sulfur recovery Unit incinerator, thereby increasing waste heat steam generation.
iv) Condensate heat recovery for Air-conditioning Central Control Room, by vapor absorption mechanism.
v) Advanced Process control system implementation in Crude Distillation Unit-2.
vi) Recycling of stripped sour water as wash water in Hydrocracker units, to minimise fresh DM water consumption in the units.

c) The measures (a) above resulted in reduction of energy consumption / resource optimisation of up to 18500 MT/year of Fuel Oil Equivalent, which is equivalent to a saving of approx. Rs.240 Million/year.

d) Fuel & Loss in the Refinery for the year 2005-06 was 6.44 % wt on crude as compared to 6.53 % wt for 2004-05. The Energy Index was 64.84 MBTU/BBL/NRGF for the year 2005-06 as compared to 64.77 MBTU/BBL/NRGF for 2004-05.

e) Energy Conservation award.
MRPL has won for the second successive year, (2004-05) the First Prize under Group-1 in the prestigious 'The Jawaharlal Nehru Centenary Awards for Energy Conservation in PSU Refineries' instituted by Ministry of Petroleum & Natural Gas (MoP&NG). The award is based on the annual performance of the refinery in the area of energy consumption measured in terms of Specific Energy Consumption (MBtu/Bbl/NRGF).

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

Year	Crude throughput, MMTPA	NRG factor (CHT method)	MBN (Mbtu/Bbl/NRGF)
2003-04	10.07	5.046	66.25
2004-05	11.85	4.922	64.77
2005-06	12.12	4.889	64.84

f) Total Energy consumption and Energy consumption per unit of production.

A) Power and Fuel Consumption	Current year 2005-06	Previous year 2004-05
1. Electricity		
a) Purchased Unit (Million KWH)	4.21	3.71
Total Amount (Rs. Million)	30.58	26.92
Rate / Unit (Rs./KWH) *	7.26	7.27

* Includes demand charges for the contractual minimum demand / Actual demand of Rs. 11.509 Million (Rs.10.216 Million for 2004-05).

The unit cost per KWH excluding Demand charges is Rs.4.51 for 2005-06 (Rs. 4.51 for 2004-05).

	Current year 2005-06	Previous year 2004-05
b) Own Generation		
i) Through Diesel Generator (at Sarpady)		
Unit (Million KWH)	1.38	1.62
Unit per ltr. Of Diesel (KWH/ltr.)	3.57	3.38
Cost / Unit (Rs./KWH)	7.87	6.37
ii) Through Steam turbine generator		
Unit (Million KWH)	567.48	585.70
Unit per litre Of Fuel Oil (KWH/ltr.)	2.13	2.20
Cost / Unit (Rs./KWH) **	5.91	4.42

** Cost / Unit included Steam cost in refinery operation.

	Current year 2005-06	Previous year 2004-05
2. Fuel Oil		
Quantity (MT) (Oil+Gas)	717252	701616
Total Amount (Rs. In Million)	9441.02	6135.79
Average Rate (Rs./MT)	13162.77	8745.23
3. Others / Internal Generation Diesel (at Sarpady)		
Quantity (KL)	392.91	478.07
Total Cost (Rs. Million)	10.86	9.99
Rate (Rs./KL)	27628.13	20904.20
4. Consumption per unit production		
Total crude processed (MT)	12117367	11848115
Total fuel fonsumed (MT)***	780879	773485
Total electricity (Million KWH)	567.09	585.70
Fuel consumption/ MT of crude processed	0.0644	0.0653
Electricity consumption KWH / MT of crude processed	46.80	49.43

*** includes fuel and loss

B. TECHNOLOGY ABSORPTION

Research and Development (R&D) activities during 2005- 2006

1. Specific Areas in which R&D was carried out by the company:
   - Studies on various Fuel oil stability additives and Diesel Pour point Depressants.
   - Experiments were carried out to destroy odour-causing phenolic compounds in spent caustic using Chlorine Dioxide as an oxidant.
   - Correlation study of Aromatic content in SKO /ATF by FIA (ASTM D 139) and by HPLC (IP 391) method was carried out.
   - Correlation study of Calorific value of Diesel and FO products was carried out by
     i. Calculation method using Density, via Hydrogen Content by NMR and
     ii. Actual calorific value by Bomb Method.

- Correlation study on SKO – Burning Quality, Smoke Point and Aromatics was carried out with respect to aromatic content and types of aromatic components.
- Crude Assay for Cairn-ONGC Rajasthan (Saraswati) Field crude assay was carried out to explore the possibility of processing at MRPL.
- Laboratory studies of Bio diesel conducted.

2. Benefits derived as a result of the above R&D:
   - Study of Fuel Oil stability with additives indicated that
     i. Destabilised residual fuel oil cannot be re-peptized with use of additives.
     ii. Destabilised asphaltenes can only be dispersed into fine particles to avoid sludge separation by using additive.
     iii. Additive treated fuel oil can only be used in boilers but not in DG sets.
   - Evaluation of various pour point additives helped to identify suitable additives for procurement and use.
   - Spent caustic treatment with chlorine dioxide, for destroying the odour-causing phenols was studied at the plant scale using chorine dioxide generator and treated effluent. Experiments proved that undesirable odour-causing phenols from the treated effluent and spent caustic could be destroyed very easily. Initial experiments indicated very high treatment cost.
   - Correlation study of Aromatic content determination in ATF by FIA method and HPLC method helped
     i. To use HPLC method as an alternate accurate and faster than FIA method for ATF certification.
     ii. To certify ATF as per UK def stan 91-91 issue 5 standards.
   - Correlation study of Calorific value of Diesel and FO products using the Density Calculation method, Hydrogen Content by NMR and actual calorific value by Bomb Method helped to certify export HSD and Fuel oil faster.
   - Data obtained from the correlation study of SKO – Burning Quality, Smoke Point and Aromatics helped to propose alternative tests instead of time consuming (24 Hours) burning quality tests to Bureau of Indian Standards (BIS). If accepted by BIS, SKO can be certified within 5-6 hours instead of 24 hours.
   - Crude Assay for Cairn-ONGC Rajasthan (Saraswati) Field crude helped in exploring the possibility of processing the same at MRPL.

3. Future plan of action:
   - To carry out further plant scale experiments on spent caustic treatment with Chlorine Dioxide to minimise the operating cost.
   - To carry out further correlation studies on SKO – Burning Quality, Smoke Point and Final Boiling point and Residue.
   - To establish facilities to study corrosion on infrastructure and suggest suitable paint.
   - To establish facilities to study properties of used-lubricating oil with respect to its additives and effect of the same.
   - To establish facilities to study the quality of various polymeric additives being procured.
   - To establish Catalysts Surface Area determinination facilities.
   - Conduct further experiments on production of Bio-Diesel.
4. Expenditure on R&D:

a) Capital	:	Rs.33.00 lakhs
b) Recurring	:	Rs. 17.00 Lakhs
c) Total	:	Rs. 50.00 lakhs

   d) Total R&D expenditure as percentage of total Turnover: - Negligible

5. Technology Absorption, Adaptation & Innovation
   i) Efforts, in brief, made towards technology absorption, adaptation and innovation.
      a) Technologies for Process Units of Phase-I & II have been fully absorbed.
      b) Adaptation and innovation: Changes have been made in the process parameters and energy recovery, as a part of successful adaptation, particularly in Hydrocracker units, Catalytic Reforming Units and Gas Oil Hydro-desulfurisation unit.
   ii) Benefits derived as a result of the above efforts, include for example, product improvement, cost reduction, product development, import substitution, etc.
      Refinery throughput has increased by 2% (approx.), Energy consumption as Fuel & Loss has reduced by 0.02% (approx.), various grades of products including Euro-III qualities of MS & HSD are produced and sold in domestic market and / or exported.

   iii) In case of imported technology (import during the last five years effective April 1, 2005), the following information is available.
      a) Technology imported
         Isomerisation process
         Variable frequency drives
      b) Year of import
         2004-05
      c) Has technology been fully absorbed?
         Isomerisation project is under installation, thus the technology absorption is in progress. Variable speed drives are already commissioned & thus the technology is absorbed.
      d) If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action.
         Isomerisation project is under installation, thus the technology absorption is in progress.

C. FOREIGN EXCHANGE EARNINGS AND OUTGO

	2005-2006 (Rs. in million)	2004-2005 (Rs. in million)
Foreign Exchange Earnings [includes Exports of Rs.Nil million (previous year Rs. 5,293.16 million) through IOCL].	**1,19,171.92**	61,913.21
Foreign Exchange Outgo (excluding imports of crude oil through IOCL).	**1,64,952.47**	1,04,148.46

ANNEXURE II TO THE DIRECTORS' REPORT

COMMENTS OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA U/S 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF MANGALORE REFINERY AND PETROCHEMICALS LIMITED FOR THE YEAR ENDED 31ST MARCH, 2006

I have to state that the Comptroller and Auditor General of India has no comments upon or supplement to the Auditors' Report under Section 619(4) of the Companies Act, 1956 on the accounts of Mangalore Refinery and Petrochemicals Limited for the year ended 31st March, 2006.

REVATHY IYER
Principal Director of Commercial Audit &
ex-officio Member, Audit Board - II, Mumbai

Mumbai
14th July, 2006

REVIEW OF ACCOUNTS OF MANGALORE REFINERY AND PETROCHEMICALS LIMITED FOR THE YEAR ENDED 31ST MARCH, 2006 BY THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

Note : Review of accounts has been prepared without taking into account comments under Section 619(4) of the Companies Act 1956 and qualification contained in the Statutory Auditors' Report, if any.

1. FINANCIAL POSITION :

		Rs. in Millions 2003-2004	Rs. in Millions 2004-2005	Rs. in Millions 2005-2006
	LIABILITIES			
a)	Paid up Capital			
	i) ONGC	12,553.54	12,553.54	**12,553.54**
	ii) HPCL	2,971.54	2,971.54	**2,971.54**
	iii) Bank / Financial Institutions	139.36	142.54	**285.29**
	iv) Others	1,953.56	1,950.39	**1,807.67**
b)	Reserves & Surplus			
	i) Free Reserves & Surplus	0.00	527.80	**2,844.82**
	ii) Share Premium Account	3,490.53	3,490.53	**3,490.53**
c)	Borowings from			
	i) ONGC	24,000.00	15,000.00	**15,000.00**
	ii) From Financial Institutions	725.30	725.30	**725.30**
	iii) From Banks	753.03	753.03	**753.03**
	iv) Foreign Currency Loans	20,985.16	15,943.92	**15,314.95**
	v) Cash Credit/Working Capital Demand Loan	1,500.00	1,363.64	**0.00**
	vi) CST Deferment Loan	479.44	879.44	**1,279.44**
d)	i) Current Liabilities and Provisions	16,339.88	26,417.56	**24,568.47**
	ii) Provision for gratuity	24.15	43.22	**45.46**
	iii) Deferred Tax Liability (Net)	0.00	0.00	**1,371.34**
	Total	85,915.49	82,762.44	**83,011.38**
	ASSETS			
e)	Gross Block	67,219.52	67401.91	**67,793.61**
f)	Less : Cumulative Depreciation	19,583.39	23,353.45	**26,834.85**
g)	Net Block (e - f)	47,636.13	44,048.46	**40,958.76**
h)	Capital work in progress	31.95	779.77	**4,092.30**
i)	Investments	0.00	0.00	**272.78**
j)	Current Assets, Loans and Advances	25,460.99	36,849.15	**37,687.54**
k)	Deferred Tax Assets	5,904.53	779.79	**0.00**
l)	Miscellaneous Expenditure not written off	610.54	305.27	**0.00**
m)	Accumulated Loss	6,271.35	0.00	**0.00**
	Total	85,915.49	82,762.44	**83,011.38**
n)	Working Capital [j - d (i)]	9,121.11	10,431.59	**13,119.07**
o)	Capital Employed (g + n)	56,757.24	54,480.05	**54,077.83**
p)	Net Worth (a+b (i) + b(ii) - l - m)	14,226.63	21,331.06	**23,953.39**
q)	Net worth per rupee of paid -up Capital (in Rs.)	0.81	1.21	**1.36**

2. RATIO ANALYSIS :

Some important financial ratios on the financial health and working of the Company at the end of last three years are as under :

		2003-2004	2004-2005	2005-2006
A.	**LIQUIDITY RATIO:**			
	Current Ratio (j / (d (i)) (Current Assets to Current Liabilities & Provisions but excluding provision for Gratuity)	1.56	1.39	**1.53**
B.	**DEBT EQUITY RATIO :**			
	Long term debt to equity {c(i) to (vi)} but excluding short term loan / p}	2.36	1.06	**0.87**
C.	**PROFITABILITY RATIOS : (%)**			
	a) Profit before tax to			
	i) Capital employed	10.12	26.81	**11.51**
	ii) Net Worth	40.38	68.49	**25.99**
	iii) Sales	5.04	7.89	**2.49**
	b) Profit after tax to equity	32.29	41.24	**15.51**
	c) Earning per share (in rupees)	2.62	5.02	**2.12**

3. SOURCES AND UTILISATION OF FUNDS F. Y. 2005-2006 :

	(Rs.in Millions)	(Rs.in Millions)
SOURCES OF FUNDS		
1) Funds from operation		
Profit after tax	3,716.15	
Depreciation	3,500.17	
	7,216.32	
Less : Profit on sale of fixed assets	-6.49	**7,222.81**
ii) Decrease in Deferred Tax Asset	779.79	
iii) Decrease in Miscellaneos Expenditure	305.27	**1,085.06**
iv) Sale of fixed assets		**32.63**
v) Increase in share capital (pending allotment)		**0.04**
vi) Increase in Deferred Tax Liability		**1,371.34**
		9,711.88

APPLICATION OF FUNDS

i)	Increase in investments	272.78	
ii)	Increase in Working Capital	2685.24	
iii)	Increase in Fixed assets	449.59	
	Add : Increase in capital work in progress	3312.53	**6,720.14**
iv)	Dividend Payments including Dividend tax paid	1399.13	
v)	Decrease in borrowings (Net)	1592.61	**2,991.74**
			9,711.88

4. RESERVES AND SURPLUS:

Reserves and Surplus amounted to Rs. 3,490.53 million, Rs.4,018.33 million and Rs,.6,335.35 million as at 31st March 2004, 31st March 2005 and 31st March 2006 respectively.

5. WORKING CAPITAL:

The working Capital (i.e. Current Assets less Current Liabilities) increased from Rs. 9,121.11 million in 2003-2004 to Rs. 10,431.59 million in 2004-2005 and increased to Rs. 13,119.07 million in 2005-2006. As a percentage of sales it was 8.01% in 2003-04, 5.64% in 2004-05 and 5.25% in 2005-06. The Working capital as precentage of inventory was 76.69% in 2003-04, 54.57% in 2004-05 and 69.39% in 2005-06.

6. WORKING RESULTS :

The working resuls of the Company in the last three years are as given below :-

		2003-2004 (Rs. in Millions)	2004-2005 (Rs. in Millions)	2005-2006 (Rs. in Millions)
i)	Sales (excluding excise)	113,906.44	185,083.35	**249,675.40**
ii)	Profit before tax/ (Loss)	5,745.04	14,608.74	**6,225.83**
iii)	Profit after tax/ (Loss)	4,594.15	8,797.58	**3,716.15**
iv)	Closing stock in process	1,262.27	1,270.70	**829.29**
v)	Closing stock of finished products	5,941.42	7,876.36	**5,377.94**
vi)	Value of production (Sales(excl.excise)+ increase in stock)	115,879.56	187,026.72	**246,741.49**
	Closing stock in terms of value of production per month (in days)	18.71	15.37	**7.96**

7. INVENTORY LEVELS:

i)	Raw Materials (Crude oil in stock including in transit)	4,335.50	9,583.12	**12,085.99**
ii)	Stores and spares (in stock and in transit)	354.27	385.99	**613.79**
iii)	Stock - in - Process	1,262.27	1,270.70	**829.29**
iv)	Finished products	5,941.42	7,876.36	**5,377.94**

There is an increase in Raw Material Stock by 26.12% over previous year. In terms of quantity, the closing stock of crude works out to 17 days requirement

8. SUNDRY DEBTORS:

The sundry debtors vis-a- vis sales decreased from 7.12% in (2003-2004) to 5.43% in (2004-2005) and further decreased to 4.69% in (2005-2006).

(Rs. in Millions)

As on 31st March	Sundry debtors	Sundry debtors considered good (Rs.)	Total considered doubtful (Rs.)	Sales Sundry Debtors (Rs.)	Percentage of Sundry Debtors to Sales (Rs.)
2004	8,093.31	19.75	8,113.06	113,906.44	7.12
2005	9,607.98	449.19	10,057.17	185,083.35	5.43
2006	11,530.20	181.12	11,711.32	249,675.40	4.69

REVATHY IYER
Principal Director of Commercial Audit &
ex-officio Member, Audit Board - II, Mumbai

Mumbai, 14thJuly, 2006

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. INDUSTRY

1.1 The most significant development in the global market has been the relentless increase in crude oil prices over the past year-and-a-half. When we take in account, the geo-political uncertainties, abetted by the seasonality of demand and speculative trading, the trend does not seem to be relenting.

1.2 The prices of crude oil in the international market are now reaching close to their highest-ever levels (average Indian Crude Oil basket for July, 06 was approx. US$ 71.36 per barrel). The impact of this global price trend on the domestic situation has been two fold; First, the burden of subsidy on PDS Kerosene and domestic LPG has ballooned to unprecedented levels, the burden of subsidies for the current year (2006-07), at 2005-06 prices, is estimated to be Rs. 15,328 crore on account of PDS Kerosene and Rs. 11,276 crore on account of domestic LPG, (as per the Report of the Committee on Pricing and Taxation of Petroleum Products, February, 2006). Second, the Government was forced to retract on its policy of freedom on the pricing of petrol and diesel, and mitigate the impact of 'pass-through' of international prices to domestic consumers.

1.3 From time to time, pricing decisions are taken by the Government to narrow the gap between international prices and the domestic prices of major petroleum products. It does so by various methods such as by adjusting customs & excise duties; by increasing the selling prices; issue of Bonds. In view of the sensitive nature of retail prices, the Govt. is constrained to take such decisions on an adhoc basis, which does not however provide for a satisfactory economic solution.

1.4 It is now being gradually recognised that the Government's decision to discontinue the Administrative Price Mechanism (APM) effective March 31, 2002 could not be implemented in a real sense. The Pool Accounts were closed, yet price controls had to be exercised by the Government due to an unprecedented rise-in global crude prices. APM was a structured and logical process with reasonable transparency. This was substituted by ad-hoc decisions which often meant the extending of discounts by upstream companies to downstream companies, and the issue of adhoc subsidies/ bonds by Government. Effective April 2005, the stand-alone refineries have also been instructed to share these under-recoveries of the PSU Oil Marketing Companies (OMCs) in an adhoc manner through offering discounts on products sold by them to PSU OMCs. The company is in active discussions with the Ministry of Petroleum & Natural Gas (MOP&NG), seeking to find a more equitable approach on these discounts, especially when it is taken into-consideration that MRPL is exporting more than half of its production, where the margins are much lower compared to Domestic Sales. The company is also pursuing with Government to impress upon the PSU OMCs for reimbursing the irrecoverable taxes.

1.5 Since international prices are unlikely to soften in the near-to-medium term and may remain high as well as volatile, it becomes essential that some permanent mechanism be devised to ensure that the oil companies continue to remain economically viable. Failing this, the oil companies will find it extremely difficult to make the much-needed capital expenditure required for complying with the newer Euro III/IV norms in times to come and for modernising the refineries to achieve energy efficiency and higher productivity.

1.6 An appropriate pricing regime which promotes efficiency, needs to be evolved in relation to petrol and diesel on the one hand and domestic LPG and PDS kerosene on the other. The issues of adjusting prices and targeting them appropriately, has become very urgent. In view of the same, Government of India had constituted an Advisory Committee on pricing and taxation of petroleum products, headed by Dr. C. Rangarajan, Chairman, Economic Advisory Council (EAC) to the Prime Minister. The Committee submitted its report in February, 2006.

Major Recommendations of the Rangarajan Committee

1.6.1 Adopting the trade-parity principle for pricing of petrol and diesel, based on a weighted average of the import-parity and the export-parity prices in the ratio of 80:20 respectively. This principle of trade-parity pricing will apply for the refinery gate price as well as for determining the retail price.

1.6.2 Terminating the principle of freight equalisation for calculating the price of petrol and diesel at different locations.

1.6.3 The government should keep itself at arms length from the actual price setting of petrol and diesel, and allow the OMCs the flexibility to fix the actual retail price subject to the indicative trade-parity price ceiling.

1.6.4 Reduce the customs duty on petrol and diesel from the present 10 % to 7.5%.

1.6.5 Excise levies on petrol and diesel should be made specific in contrast to the present combined levy.

1.6.6 Subsidised kerosene to be restricted to Below Poverty Line (BPL) families.

1.6.7 Adjust the price of domestic LPG by Rs. 75 per cylinder immediately and then progressively increase it further to bring it in line with the international price.

It appears that after consideration of the recommendations, the Government has decided to accept and implement the recommendations referred at para 1.6.1 and 1.6.4 effective June, 2006. Implementation of these two recommendations are expected to reduce the refining margins available to refineries on the domestic sales of petrol and diesel.

2. STRATEGY

2.1. India from being a net importer of refined petroleum products upto 1999-00, has now emerged as a net exporter. Given the expected growth in overall product demand at 4% compounded annually, coupled with fresh capacity additions, the domestic refining capacity will remain in excess of domestic demand for petroleum products for a very long time.

2.2. The company continues to lay more emphasis to develop export potentials to sell its surplus production capacity. The company has recently finalised a Term Contract with State Trading Corporation, Mauritius to export about 1.03 MMT Products to Mauritius over a period of one year beginning August, 2006. The company has also finalised another Term Contract to supply approx. 600 TMT of High Speed Diesel to ENOC (National Oil Company of the Kingdom of UAE) during June, 2006 to December, 2006.

2.3. In addition to the proposed augmentation of refining capacity from the present rating of 9.69 MMTPA to 15 MMTPA, actions have been initiated to upgrade the refinery, to recover distillates from black oil pool and extract value-added products. Necessary management approvals from the boards of MRPL and ONGC are already in place. While expanding the capacity to 15 MMTPA, your company proposes to use more of Heavy / High Sulphur and High Acid crudes, which are comparatively cheaper in the international market. This is expected to significantly improve the Refinery Margins and will ensure long-term economic viability of the company's operations.

2.4. As new refining capacity is added and naphtha is replaced by gas as fuel, the domestic production of naphtha, (which is already in surplus) will far outstrip the domestic demand. To add significant incremental value to the surplus naphtha, an Aromatic Complex is being set up by a SPV Company of ONGC / MRPL in Mangalore SEZ, to produce paraxylene. Setting up of an Olefin Complex is also being actively considered at the Mangalore SEZ.

2.5. The company is presently in the process of reviewing its retail marketing plans considering the prevailing market scenario where marketing margins have turned negative. The Government has advised MRPL that it will not be eligible for the Bonds-Other benefits, to meet the deficit arising out of negative marketing margins. Pending the review, the company's Retail Marketing Plans are being put on hold.

3. RISKS AND CONCERNS

3.1 The Company has laid down procedures for the continuous identification and mitigation of various risks like

- Crude oil supply,
- Exchange fluctuations,
- Infrastructure availability,
- Product Evacuation,
- Health, Safety & Environment,
- Regulatory Compliance,
- Manpower and Technology

The Company has taken a comprehensive Mega Risk insurance coverage of its assets to safeguard them from various unforeseen risks as well as from the loss of profit, due to business interruption.

3.2 Crude oil and Petroleum products are globally traded commodities and therefore, the prices are influenced by the international market forces of demand-supply and other geo political uncertainties etc. Like all other refineries, your Company is also exposed to this volatility in international prices of crude oil and petroleum products.

3.3 Domestic sales contribute to the major part of the revenue of your Company. The state of the economy and the evacuation of product by PSU OMCs for domestic market, therefore, influences the turnover and profitability. The Customs & Excise duty regime on petroleum products and crude oil exerts significant influence on the margins of the Company.

4. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has in place the required internal control systems and procedures to ensure optimal use of the Company's resources. The Company's internal audit department conducts regular audits of various operational and financial matters. The audit observations are periodically reviewed by the Audit Committee of the Board of Directors.

5. SAFETY AND ENVIRONMENTAL PERFORMANCE

MRPL has a Proactive Approach towards safe working practices. Integrated training programmes for employees and secondary workforce are being conducted periodically. All process plant modifications are verified through a Hazard in Operation (HAZOP) study before implementation. MRPL is promoting a safe work culture at all level of operations.

- Regular inspection and monitoring is carried out by operating personnel with the assistance from Fire and Safety department. Periodic mock drills are organised to ensure the readiness of the system. Employee participation is encouraged through area safety committees and the activities are monitored by the Management through review meetings. The Company also conducts regular medical check up for all employees and Special tests for employees working in high noise & dust areas, etc.
- On 31st March, 2006, the Company achieved a new record of 842 days without Reportable Loss Time Injury (RLTI) surpassing the previous record. As of August 8, 2006 this RLTI has been extended to 972 days.
- As a recognition of its safety performance, MRPL was awarded Runner–Up for National Safety Award in May 2005, based on statistics for the year 2003-04 for the lowest average frequency rate by the Ministry of Labour & Employment

  In Environmental Management, the Company philosophy is to perform 'beyond compliance' – that is, perform better than minimum required by statutes. The Refinery is certified with ISO 14001 for Environment Management Systems. The major achievements include:
- 70-75% of the treated effluent is recycled.
- SOx emissions at 50% of Pollution Control Board limits. Third-party monitoring of ambient air quality is done around the refinery.
- MRPL was the first refinery in India to produce Euro III grade petrol and diesel
- MRPL has started producing Euro IV grade diesel, 2 years ahead of target
- Generation of Bio gas from canteen /colony waste is being taken up.
- Innovative methods of solid waste reduction. Bio remediation of solid wastes.
- Rain-water harvesting scheme has resulted in recovering 3000-5000 m^3/day of rain water and saving equivalent quantity of raw water.
- MRPL is procuring three electric cars for its internal transport, as a measure of fuel-saving and emission-reduction.
- Environment Excellence Award from Greentech Foundation, New Delhi for year 2004-05
- Golden Peacock Environment Management Award for year 2004-05 from World Environment Foundation, New Delhi

6. FINANCIAL PERFORMANCE

(All figures within brackets in the following section are given in comparison to 2004-05)

The refinery achieved its highest-ever crude throughput of 12.12 MMT during the year (up 2.28% from 11.85 MMT) and produced 11.34 MMT of finished products (up 2.44% from 11.07 MMT). Turnover during the year was Rs. 28,242.86 Crore (up 36.49% from Rs. 20,692.55 Crore); this includes exports amounting to Rs. 11,917.19 Crore (up 92.49% from Rs. 6,191.32 Crore). The Company has reported net profit of Rs. 371.6 Crore (down from Rs. 879.75 Crore). The reduction in net profit is mainly due to :

(i) Discounts on products (MS, HSD, Kerosene (PDS) and LPG (Domestic), fixed by PSU OMCs (IOC/ BPC/ HPC).

(ii) Reduced product offtake (43% against 55%) by the OMCs in domestic market, where there are higher margins.

7. CAUTIONARY STATEMENT

These discussions may be considered "forward looking statements" within the meaning of the applicable laws and regulations. Actual performance may deviate from the explicit or implicit expectations.

CORPORATE GOVERNANCE REPORT FOR THE YEAR 2005-2006

1) CODE OF CORPORATE GOVERNANCE:

MRPL is committed to good governance practices that create long-term sustainable value for the stakeholders. MRPL's Corporate Governance framework is based on the following principles:

- Ensuring timely flow of information to the Board/Committees for meaningful and focused discussions in meetings;
- Independent verification of the Company's financial reporting;
- A sound system of internal control to mitigate the risks;
- Timely and balanced disclosure of all material information to all Stakeholders;
- Compliance with applicable laws, rules, guidelines and regulations;
- Equitable and fair treatment to all its stakeholders including Government, employees, customers, vendors, shareholders and investors.

2) BOARD OF DIRECTORS :

A) Composition and Category of Directors (as on 31st March, 2006)

Executive Directors : Nil
Non Executive Directors : 11

Director	Executive/ Non–Executive	Category	No. of other Directorship		No. of outside Committees	
			Public	Private	Member	Chairman
Shri Subir Raha	Chairman Non-Executive	Promoter Company's Director	8	1	–	–
Shri R.S. Sharma	Non-Executive	Promoter Company's Director	4	1	3	–
Dr. A.K.Balyan	Non-Executive	Promoter Company's Director	4	1	–	–
Shri N.K.Mitra	Non-Executive	Promoter Company's Director	3	–	–	–
Shri Sunjoy Joshi*	Non-Executive	Independent Director {Joint Secretary (Exploration), Ministry of Petroleum & Natural Gas}	4	–	–	2
Shri V.P. Joy*@	Non-Executive	Independent Director (Director Ministry of Petroleum & Natural Gas)	1	–	2	–
Shri Arun Balakrishnan	Non-Executive	Promoter Company's Director	2	–	–	–
Shri S. Roy Choudhury@	Non-Executive	Promoter Company's Director	4	–	–	–
Shri M.P.Modi	Non-Executive	Independent Director, ICICI Nominee	3	–	3	1
Shri.G.M. Ramamurthy	Non-Executive	Independent Director, IDBI Nominee	4	2	2	–
Shri Girish Dave	Non-Executive	Independent Director	5	–	–	

The Chairman of the Board is non-executive and hence 1/3rd of the Board comprises of independent directors.

* Considered Independent Director, Since the Government does not hold any shares in MRPL.

@ Shri V.P. Joy has Resigned as a Government Director w.e.f 17th February, 2006 and Shri S. Roy Choudhury Nominated as a Director w.e.f 1st September, 2005 in place of Shri C. N Rao by HPCL (Promoter Company).

Changes after 31st March, 2006:

1 Shri Subir Raha has Resigned on 25th May, 2006 upon Completion of his tenure as Chairman and Managing Director of ONGC (Promoter Company) on 24th May, 2006.
2 Shri R.S. Sharma has been Nominated as Chairman of the Company by ONGC w.e.f 30th May, 2006.
3 Shri Sunjoy Joshi has Resigned from the Board on 31st July, 2006, upon completion of his central tenure with (MOP&NG), Government of India.
4 Shri Prabh Das* has been Appointed as a Government Director w.e.f 2nd June, 2006.
5 Nomination of Shri M.P.Modi has been withdrawn by ICICI Bank w.e.f 17th July, 2006.
6 Shri Girish Dave has Resigned on 26th July, 2006.
7 The Nomination of Shri Arun Balakrishnan has been withdrawn by HPCL w.e.f 13th July, 2006.
8 Shri R.Rajamani has been Appointed as a Managing Director w.e.f 27th April, 2006 by the President of India.
9 Shri L.K Gupta has been Appointed as Director (Finance) w.e.f 12th May, 2006 by the President of India.

B) Attendance of Directors at the Board Meeting held during the financial year 2005-06 and last AGM, held on 15th September, 2005.

Director	No. of Board Meetings held	No. of Board Meetings attended	Attended Last AGM
Shri Subir Raha	5	5	Yes
Shri R.S. Sharma	5	5	Yes
Dr. A.K. Balyan	5	5	Yes
Shri N.K. Mitra	5	5	Yes
Shri Arun Balakrishnan	5	3	No
Shri C.N. Rao	5	1	No
Shri S. Roy Choudhury*	5	1	No
Shri Sunjoy Joshi**	5	1	No
Shri V.P. Joy**	5	2	Yes
Shri M.P. Modi	5	5	Yes
Shri G.M. Ramamurthy	5	5	Yes
Shri Girish Dave	5	4	Yes

* Nominated as a Director by HPCL w.e.f 1/09/2005 in place of Shri C. N. Rao

** Appointed as Government Director w.e.f 21/07/2005

C) Details of Board Meetings held during the financial year 2005-06

Date of Meeting	Place
6th June, 2005	New Delhi
25th July, 2005	New Delhi
25th October, 2005	New Delhi
30th January, 2006	New Delhi
14th February, 2006	Mangalore

3) AUDIT COMMITTEE :

i) Terms of Reference:

The functioning and terms of reference of the Audit Committee are as prescribed under Section 292A of the Companies Act, 1956 and Clause 49 of the Listing Agreement with the Stock Exchanges.

ii) Composition of Audit Committee as on 31st March, 2006:

1. Shri M.P.Modi- Independent Director (Chairman)
2. Shri G.M.Ramamurthy - Independent Director
3. Shri Girish Dave - Independent Director
4. Shri R.S.Sharma - Promoter Non-Executive Director

The Board of Directors has reconstituted the Audit Committee on 2nd June, 2006 as Follows:

1. Shri M.P.Modi* - Independent Director (Chairman)
2. Shri G.M.Ramamurthy - Independent Director
3. Shri Girish Dave** - Independent Director
4. Shri Prabh Das - Government Director (considered to be Independent)
5. Shri R.Rajamani- Managing Director

As per the provisions of Clause 49 of Listing Agreement atleast one director is required to have financial and accounting knowledge. Shri R.S Sharma being a Cost Accountant and Shri G.M Ramamurthy being Associate of I.I.B and Company Secretary are having financial and Accounting knowledge.

* Nomination of Shri M.P.Modi has been withdrawn by ICICI Bank w.e.f 17th July,2006.

** Resigned from the Directorship w.e.f 26th July,2006.

iii) Details of the Audit Committee Meetings held during the financial year 2005-06:

Date of Meeting	No. of Members Attended
6th June, 2005	3
25th July, 2005	4
25th October, 2005	4
15th December, 2005	3
30th January, 2006	4

Attendance in Audit Committee Meetings :

Director	No. of Meetings Attended
Shri M.P. Modi	5
Shri G.M.Ramamurthy	5
Shri Girish Dave	4
Shri R.S.Sharma	4

4) REMUNERATION COMMITTEE:

MRPL being a Government Company, appointment and terms & conditions of remuneration of Executive (whole-time functional) Directors are determined by the President of India through the Ministry of Petroleum & Natural Gas.

The Company does not have a policy to pay remuneration to its non-executive directors except sitting fees for the Committee and Board meetings to the Non-Executive Independent Directors other than Government Directors.

Details of remuneration paid to the Independent Non-Executive Directors are as follows:

Directors	Sitting fees (Rs.)
Shri M.P Modi	75000
Shri G.M Ramamurthy	97500
Shri Girish Dave	75000

Break up of fixed components and performance linked incentives with performance criteria : N.A

Service Contract –Notice period, Severance fees : N.A.

Stock Options details (if any) : N.A.

Whether issued at discount Period over which it is accrued and is exercisable.

Director's Shareholding: As per the declaration received by the Company as on 31st March, 2006. The following Directors hold Equity shares of the Company as follows

Name of the Director	No. of Shares
Shri Subir Raha	200
Shri S. Roy Choudhury	400

No other Directors have shareholding in the Company, as on 31st March,2006 as per the declaration received by the Company.

5) SHAREHOLDERS/ INVESTORS GRIEVANCE COMMITTEES:

i) (a) The Company has constituted Shareholders/ Investors Grievance Committee to look into the redressal of shareholders and investors complaints. The composition of the Committee as on 31st March, 2006 is as follows :-

1) Shri G.M.Ramamurthy - Chairman (Independent Director)
2) Shri R.S. Sharma - Member (Director)
3) Shri Girish Dave - Member (Independent Director)

The Board of Directors has Reconstituted the Committee on 2nd June,2006. The Composition of Reconstituted Committee is as Follows:

1) Shri G.M.Ramamurthy - Chairman (Independent Director)
2) Shri Girish Dave* - Member (Independent Director)
3) Shri L.K Gupta - Member (Director Finance)

* Resigned from the Directorship of the Company w.e.f 26th July,2006.

(b) The Company also had a Share Transfer Committee comprising of the following persons as on 31st March 2006:

1. Shri R.S.Sharma - Director
2. Shri R.Rajamani - Refinery Inchargr
3. Shri Lalit Kumar Gupta - Vice-President (Finance) and Company Secretary

The Board of Directors has Reconstituted the Committee on 2nd June,2006. The Composition of Reconstituted Committee is as Follows:

1. Shri R.Rajamani - Managing Director
2. Shri Lalit Kumar Gupta - Director (Finance)
3. Company Secretary

ii) Name and designation of the Compliance officer: Shri Dinesh Mishra, Company Secretary (Officiating).

iii) No. of Shareholders' complaints received during the year 2005-2006 : 2566

iv) No. of complaints not resolved to the satisfaction of the shareholders as on 31.03.2006 : 6*

v) No. of pending share transfers : 326 transfer requests (53725 shares) (transferred in April, 2006)

* All the pending complaints have been subsequently resolved.

6) DETAILS OF GENERAL BODY MEETINGS :

i) Location, place and time where last 3 AGMs were held

Year	Location	Date	Time
2003	Registered Office Mudapadav, Kuthethoor P.O., Via Katipalla, Mangalore –575 030	30.09.03	4.00 p.m
2004	Registered Office Mudapadav, Kuthethoor P.O., Via Katipalla, Mangalore –575 030	27.09.04	2.30 p.m
2005	Registered Office Mudapadav, Kuthethoor P.O., Via Katipalla, Mangalore –575 030	15.09.05	3.00 p.m

ii) Whether any special resolutions passed in the previous 3 AGMs?
Yes, detail of the same is given hereunder:

Date	Matter
27.09.04	Amendment of Articles of Association

iii) Whether special resolutions were put through Postal ballot last year?
There were no special resolutions which were put through Postal ballot in the last AGM.

iv) Persons who conducted the Postal ballot exercise: Not Applicable.

v) Procedure for Postal ballot: Not Applicable.

7) DISCLOSURES :

i) Materially significant related party transactions:

Since the Company has been a state controlled enterprise throughout the year, no disclosure is required as per the Accounting Standard 18 (AS - 18) of the Related Party Disclosures issued by the Institute of Chartered Accountants of India

ii) Details of non-compliance by the company, penalties, strictures imposed by the Stock Exchange or SEBI or any authority on any matter related to capital markets during last 3 years: NIL

iii) Whistle Blower Policy: The Company has not yet formulated any formal policy, However Company declares that no personnel has been denied the access to Audit Committee.

iv) Non- Mandatory Requirements:

a. The Company maintains a Chairman's office at its expense.
b. MRPL being a Government Company, appointment and terms & conditions of remuneration of Executive Directors (whole-time functional) are determined by the President of India through the Ministry of Petroleum & Natural Gas.
c. As the Company's financial results are displayed on the website the half-yearly report is not sent to each shareholders residence.
d. There are no qualifications in the Auditors' Report on the financial statements to the shareholders of the Company.
e. There is no formal policy at present for training of the Board members of the Company as the members of the Board are eminent and experienced professional persons.
f. There is no formal mechanism existing for performance evaluation of non-executive directors.
g. The Company has not established any formal Whistle Blower Policy.

v) CODE OF CONDUCT FOR MEMBERS OF THE BAORD AND SENIOR MANAGEMENT

The Board at its 113th meeting held on 30th January, 2006, on the recommendations of Audit Committee, has adopted a Code of Conduct ('Code') for Members of the Board and Senior Management. This Code is a comprehensive code applicable to Executive and Non-executive Directors as well as members of the Senior Management i.e. Associate Vice-President and above of the Company. A copy of the Code has been placed on the Company's website www.mrpl.co.in

The Code has been circulated to all the members of the Board and the Senior Managament Personnel and compliance of the same has been affirmed by them. A declaration to this effect by Managing Director is given below:

I hereby confirm that:

The Company has obtained from all the members of the Board and Senior Management, affirmation that they have complied with the Code of Conduct for Members of Board and Senior Management, in respect of the financial year 2005-06.

R.Rajamani
Managing Director

vi) MRPL CODE ON INSIDER TRADING

In pursuance of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 the Board has approved the "Code of Conduct for Prevention of Insider Trading". This Code is followed by all Designated Employees of the Company, as defined under the code.

vii) CEO & CFO CERTIFICATION

In terms of Clause 49 of the Listing Agreement with the Stock Exchange, the certification by the CEO (Managing Director) & CFO (Director-Finance) on the financial statements and internal controls relating to financial reporting for the financial year 2005-06 has been obtained.

8) MEANS OF COMMUNICATION:

i) Whether half yearly report sent to each Shareholders residence : As the Company's financial results are displayed on the website the same are not sent to each shareholders residence

ii) Newspapers in which Quarterly results were normally published : Economics Times, (English) • Hindu Business Line, (English) Indian Express, (English) • Financial Express, (English) Business Standard, (English) • Dainik Bhaskar, (Hindi) Dainik Jagran, (Hindi) • Udayavani (Manipal), (Kannada)

iii) Website where the results are displayed : www.mrpl.co.in

iv) Any presentation made to the institutional investors or to the analysts. : No

v) Whether Management Discussion and Analysis is a part of Annual Report : Yes

9) GENERAL SHAREHOLDERS INFORMATION: 18th Annual General Meeting

i) Date and time : 16th September, 2006 at 4.00 p.m

Venue : T M A Pai International, Convention Centre, Ballal Bagh, M G Road, Mangalore – 575 003

ii) Financial Year : 2005 – 2006

iii) Book Closure Date : Friday, 18th August 2006 to Friday, 8th September, 2006

iv) Dividend Payment Date : On or after 16th September 2006

v) Listing on Stock Exchange:

1) Bombay Stock Exchange Ltd. (BSE), Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai -400 001.
2) The National Stock Exchange of India Ltd. (NSE), Exchange Plaza Bandra-Kurla Complex, Bandra (East) Mumbai - 400 051.
3) Mangalore Stock Exchange, (Regional Stock Exchange for the Company), 4th Floor, Rambhavan Complex, Kodialbail, Mangalore- 575 003.

vi) Stock code:

BSE : 500109
NSE : MRPL
Demat Segment - ISIN : INE103A01014

(vii) Market Price Data

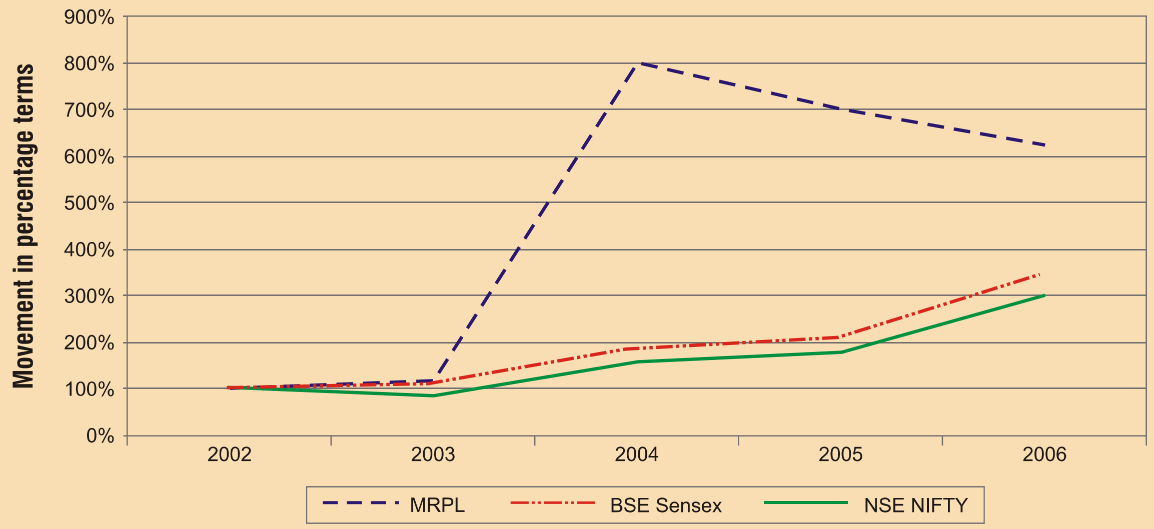
Month	Mumbai Stock Exchange	
(2005-2006)	High Rs.	Low Rs.
April 2005	49.80	45.00
May 2005	49.40	44.50
June 2005	51.50	44.15
July 2005	52.95	44.05
August 2005	56.90	47.00
September 2005	59.00	51.10
October 2005	55.85	44.55
November 2005	50.00	44.80
December 2005	51.80	46.05
January 2006	51.50	45.10
February 2006	46.00	42.00
March 2006	47.00	41.65

(viii) (A) Performance in comparison to broad based indices such as BSE Sensex and NSE NIFTY.

As on	MRPL Share Price (Rs.)	BSE Sensex	NSE NIFTY
31.3.2006	42.50	11279.96	3402.55
31.3.2005	47.55	6492.82	2035.65
31.3.2004	54.60	5590.60	1771.90
31.3.2003	8.10	3048.72	978.20
31.3.2002	6.80	3469.35	1129.55

(B) Performance in comparison to broad based indices such as BSE Sensex:

Performance of every Rs. 100 invested on March, 31, 2002: MRPL Vs. Key Indices



(ix) Registrar and Transfer Agent : M/s MCS Ltd., Harmony 1st Floor, Sector-I, Khanda Colony, New-Panvel (West), Raigad District-410 206

(x) Share transfer system:
The share transfer work is being handled by Company's R&T agents, M/s MCS Ltd., who are also having connectivity with the depositories viz. NSDL and CDSL. The transfers are approved by the Share transfer Committee on weekly basis. Share transfers are registered and despatched within a period of 30 days from the date of receipt if the documents are correct and valid in all respects.

(xi) Distribution of Shareholding as on 31st March, 2006

No.of Equity Shares held	No. of shareholders holding shares in		No.of shares held in		% of Equity capital held in	
	Physical Form	Demat Form	Physical Form	Demat Form	Physical Form	Demat Form
1-500	117747	78403	11309628	6949921	0.65	0.40
501-1000	221093	152240	49994605	40723833	2.85	2.32
1001-2000	1823	20852	1403925	17069150	0.08	0.97
2001 – 3000	430	12143	805885	25507051	0.05	1.46
3001 – 4000	13	1059	92950	7811403	0.01	0.45
4001 – 5000	11	644	198300	14918581	0.01	0.85
5001-10000	0	35	0	7425139	0.00	0.42
10001 & above	1	15	297153518	1271538438	16.95	72.54
Total	**341118**	**265391**	**360958811**	**1391943516**	**20.59**	**79.41**

Shareholding Pattern as on 31st March, 2006

	31.03.2006	
Particulars	**No. of Shares**	**Percentage**
Oil and Natural Gas Corpn. Ltd.	1255354097	71.62
Hindustan Petroleum Corpn. Ltd.	297153518	16.95
Resident Individuals	156994626	8.96
Non Resident Individuals	11564335	0.66
Domestic Companies	12492397	0.71
Non Domestic Companies	8425434	0.48
GIC & Subsidiaries	1538820	0.09
Banks & Financial Institutions	5111403	0.29
Mutual Funds	4267697	0.24
Total	**1752902327**	**100.00**

xi) Dematerialisation of Shares and liquidity
As on 31st March, 2006, 1,391,943,516 equity shares representing 79.41%, is in dematerialised form.
Trading in Equity shares of the Company is permitted only in dematerialised form w.e.f. February 15, 1999 as per the notification issued by Securities and Exchange Board of India.

xii) Outstanding GDR/ ADR/ Warrants or any convertible instruments, conversion date and impact on equity : Nil.

xiii) Plant Location : Mudapadav, Kuthethoor
P.O.Via Katipalla,
Mangalore-575 030.
Tel. No.: 0824-2270400

xiv) Address for Correspondence:
REGISTRARS & SHARE TRANSFER AGENTS:
M/S MCS Limited,
UNIT: MRPL
Harmony, 1st Floor, Sector-I,
Khanda Colony, New Panvel (West),
Raigad District- 401206.
Tele.No. 277492003-10
Email: mcsmum@vsnl.com
COMPANY'S INVESTOR RELATIONS CELL:
Mangalore Refinery and Petrochemicals Limited (MRPL)
Maker Tower, "F" Wing, 16th Floor,
Cuffe Parade, Mumbai-400 005.
Tele.No.:022-22173000
Fax No.: 022-22173233
Email: investor@mrplindia.com

AUDITORS' CERTIFICATE ON COMPLIANCE OF CONDITIONS OF CORPORATE GOVERNANCE

The Members,

MANGALORE REFINERY AND PETROCHEMICALS LIMITED,

We have examined the compliance of conditions of corporate governance by M/s. Mangalore Refinery and Petrochemicals Limited for the year ended 31st March 2006, as stipulated in clause 49 of the Listing Agreements of the said Company with stock exchanges.

The compliance of conditions of corporate governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the company.

In our opinion and to the best of our information and according to the explanations given to us and the representations made by the Management, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in clause 49 of the above mentioned Listing Agreement.

We state that no investor grievance is pending (with the company) as at 31st March 2006 for a period exceeding one month against the Company as per the certificate of the Registrar and Transfer Agents of the Company.

We further state that such compliance is neither an assurance as to the future viability of the company nor the efficiency or effectiveness with which the management has conducted the affairs of the company.

For VARMA & VARMA
CHARTERED ACCOUNTANTS

Place: Bangalore
Date: 4th August, 2006

R. Keshavdas
Partner
Membership No. 23862

AUDITORS' REPORT

To,
The Members
MANGALORE REFINERY AND PETROCHEMICALS LIMITED
Mangalore

1. We have audited the attached Balance Sheet of Mangalore Refinery and Petrochemicals Limited as at 31st March, 2006, the Profit and Loss Account and the Cash Flow Statement for the year ended on that date annexed thereto. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. As required by the Companies (Auditors' Report) Order, 2003 as amended by the Companies (Auditors' Report) Amendment Order, 2004 issued by the Government of India in terms of section 227(4A) of the Companies Act, 1956, we enclose in the Annexure a statement on the matters specified in Paragraphs 4 and 5 of the said Order;

4. Further to our comments in the Annexure referred to above, we report that:
   - i. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
   - ii. In our opinion, proper books of account as required by law have been kept by the company so far as appears from our examination of those books;
   - iii. The Balance Sheet and Profit and Loss Account and the Cash Flow statements dealt with by this report are in agreement with the books of account;
   - iv. In our opinion, the Balance Sheet, Profit and Loss Account and the Cash Flow statements dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956;
   - v. On the basis of written representations received from the directors other than Govt. nominee directors and taken on record by the Board of Directors, we report that none of the directors of the company is disqualified as on 31st March, 2006, from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956. The department of Company Affairs vide their General Circular no. 8/2002 dated 22nd March 2002 have clarified that Government nominated Directors are exempted from the provision of section 274(1)(g) of the Companies Act, 1956.
   - vi. In our opinion and to the best of our information and according to the explanations given to us, the said accounts, read together with the Significant Accounting Policies, and other notes on accounts attached thereto, give the information required by the Companies Act, 1956, in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
     - (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 2006;
     - (b) in the case of the Profit and Loss Account, of the profit for the year ended on that date; and
     - (c) in the case of the Cash Flow Statement, of the cash flows of the company for the year ended on that date.

For VARMA & VARMA
Chartered Accountants

K M Sukumaran
Partner
Membership No.15707

Place : New Delhi
Date : 2nd June, 2006

ANNEXURE REFERRED TO IN PARAGRAPH 3 OF OUR AUDIT REPORT OF EVEN DATE

(i) (a) The company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) All the assets have not been physically verified by the Management during the year but there is a regular programme of verification which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.

(c) The company has not disposed off substantial part of fixed assets during the year.

(ii) (a) We are informed that the inventories of stores and spares are physically verified by the management on a continuing basis as per a program of perpetual inventory. Inventories of other items have been physically verified at the year end, the frequency of which, in our opinion is reasonable, having regard to the size of the company and the nature of its business;

(b) In our opinion and according to the explanations given to us, the procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the company and the nature of its business;

(iii) The company is maintaining proper records of inventory and as informed to us, discrepancies noticed on physical verification by the management which are reported to be not material have been properly dealt with in the books of account.

(iv) (a) The company has not granted any loans, secured or unsecured to Companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

(b) The company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956.

(v) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the company and nature of its business for the purchase of inventory, fixed assets and for the sale of goods and services. During the course of our audit no major weakness has been noticed in the internal controls.

(vi) According to the information and explanations given to us, the company has not entered into any transactions that need to be entered into a register in pursuance of Section 301 of the Companies Act, 1956.

(vii) The company has not accepted any deposits from the public during the year and hence the directives issued by the Reserve Bank of India and the provisions of sections 58A, 58AA or any other relevant provisions of the Companies Act, 1956 and the rules framed there under are not applicable.

(viii) In our opinion, the company has an internal audit system, the scope and coverage of which is commensurate with the size and nature of its business.

(ix) We have broadly reviewed the records maintained by the company pursuant to the order issued by the Central Government under section 209(1)(d) of the Companies Act, 1956, for the maintenance of cost records in respect of the products of the company and are of the opinion that prima facie, the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of these records with a view to determine whether they are accurate or complete.

(x) (a) The company has been generally regular in depositing undisputed statutory dues including Provident fund, Employee's State Insurance, Income Tax, Sales Tax, Wealth Tax, Custom Duty, Excise Duty, Cess, Investor Education and Protection Fund, Service tax, and other statutory dues with the appropriate authorities during the year except for interest demand on electricity tax under the Karnataka Electricity (Taxation and Consumption) Act 2004 amounting to Rs.4.42 million for which the Company has requested for waiver of demand which is pending with the Government and hence the same remains unpaid. Except for the dues as above, there are no arrears of undisputed statutory dues of material nature outstanding for a period of more than six months from the date on which they became payable.

(b) According to the information and explanations given to us and as per our verification of the records of the company, the following disputed amounts of tax/duty have not been deposited with appropriate authorities as at 31st March, 2006:

Name of the Statute	Nature of the dues	Amount (Rs.millions)	Period to which the amount relates (financial year)	Forum where dispute is pending.
The Karnataka Sales Tax Act 1957/Central Sales Tax Act, 1956/ The Karnataka Tax on Entry of Goods Act, 1979.	Sales Tax/Entry Tax/ Interest and Penalty	3377.21	1993-2006	Commercial Tax Appellate Authorities/Hon'ble High Court of Karnataka.
Income Tax Act, 1961	Income-tax / Interest	588.41	1992-2002	Income Tax Appellate Authorities.
Central Excise Act, 1944	Central Excise Duty Interest/ Penalty	2109.53	1996-2006	Central Excise Appellate Authorities/Ministry of Finance, Government of India.
The Customs Act, 1962	Customs Duty	12.30	1996-2002	Customs Appellate Authorities.

(xi) There are no accumulated losses at the end of the financial year. The company has not incurred cash losses during the year and in the immediately preceding financial year.

(xii) According to the information and explanations given to us and as per our verification of records of the company, the company has not defaulted in repayment of dues to the financial institutions and banks.

(xiii) The company has not granted any loans or advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiv) Since the company is not a chit fund/nidhi/mutual benefit fund/society, the relative reporting requirements are not applicable.

(xv) Since the company is not dealing or trading in shares, securities, debentures or other investments, the relative reporting requirements are not applicable.

(xvi) According to the information and explanations given to us and as per the verification of the records of the company, the terms and conditions of the guarantee given by the company for the loans taken by New Mangalore Port Trust from banks and financial institutions are not prejudicial to the interest of the company. Except for the above, the company has not given any guarantee for loans taken by others from banks or financial institutions.

(xvii) According to the information and explanations given to us, the Company has not availed any fresh term loans during the year.

(xviii) According to the information and explanations given to us and as per our verification of the records of the company, the funds raised by the company on short-term basis have not been used for long term investment.

(xix) The company has not made any preferential allotment of shares to parties and companies covered in the Register maintained under Section 301 of the Act.

(xx) The company has not issued any debentures during the year.

(xxi) The company has not raised any money by public issue during the year.

(xxii) As explained to us, there has been an instance of shortage in the stock of filled Bitumen drum, to the extent of 2100 drums valued at Rs.5.90 Million noted in the physical verification, which is not considered material, has been duly provided for and is being investigated. According to the information and explanations given to us and as per our verification of the records of the company, no fraud, either on or by the company has been noticed or reported during the year.

For VARMA & VARMA
Chartered Accountants

K M Sukumaran
Partner
Membership No.15707

Place : New Delhi
Date : 2nd June, 2006

BALANCE SHEET AS AT 31ST MARCH, 2006

(Rupees in million)

	Schedule	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
I. SOURCES OF FUNDS			
SHAREHOLDERS' FUNDS			
Share Capital	A	17,618.04	17,618.00
Reserves and Surplus	B	6,335.35	4,018.33
LOAN FUNDS			
Secured Loans	C	5,797.13	8,934.37
Unsecured Loans	D	27,275.59	25,730.96
DEFERRED TAX LIABILITY (NET)		1,371.34	–
TOTAL		58,397.45	56,301.66
II. APPLICATION OF FUNDS			
FIXED ASSETS	E		
Gross Block		67,793.61	67,401.91
Less: Depreciation		26,834.85	23,353.45
Net Block		40,958.76	44,048.46
Capital work-in-progress		4,092.30	779.77
		45,051.06	44,828.23
INVESTMENTS	F	272.78	–
DEFERRED TAX ASSET (NET)		–	779.79
CURRENT ASSETS, LOANS AND ADVANCES			
Inventories	G	18,907.01	19,116.17
Sundry Debtors	H	11,530.20	9,607.98
Cash and Bank Balances	I	51.86	91.63
Other Current Assets	J	3,783.00	3,781.64
Loans and Advances	K	3,415.47	4,251.73
		37,687.54	36,849.15
Less :CURRENT LIABILITIES AND PROVISIONS			
Current Liabilities	L	22,789.19	23,671.33
Provisions	M	1,824.74	2,789.45
		24,613.93	26,460.78
Net Current Assets		13,073.61	10,388.37
MISCELLANEOUS EXPENDITURE			
(To the extent not written off or adjusted)	N	–	305.27
TOTAL		58,397.45	56,301.66
Significant Accounting Policies	S		
Notes on Accounts	T		
Cash Flow Statement	U		

Schedules referred to above form part of the accounts
As per our report of even date attached

For and on behalf of the Board

For VARMA & VARMA
Chartered Accountants

R. S. SHARMA
Chairman

K M SUKUMARAN
Partner
Membership No. : 15707

R RAJAMANI
Managing Director

L. K. GUPTA
Director (Finance)

New Delhi, 2nd June, 2006

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

(Rupees in million)

	Schedule	For the year ended 31.03.2006 (Rs. in Millions)	For the year ended 31.03.2006 (Rs. in Millions)
INCOME			
Income from Operations			
Sale of Products (Gross)		282,428.64	206,925.50
Less: Excise Duty		32,753.24	21,842.15
Sale of Products (Net)		249,675.40	185,083.35
Other Income	O	767.81	1,864.36
Increase/(Decrease) in Stocks	P	(2,933.91)	1,943.37
		247,509.30	188,891.08
EXPENDITURE			
Purchase of products for resale		–	28.29
Raw Materials consumed		228,314.30	162,577.33
Operating & Other Expenses	Q	7,286.06	5,293.83
		235,600.36	167,899.45
Profit for the year before Interest, Depreciation and Tax		11,908.94	20,991.63
Interest & Finance Charges	R	1,877.67	2,296.19
Depreciation/Amortisation		3,500.17	3,781.43
Miscellaneous Expenditure written off		305.27	305.27
		5,683.11	6,382.89
Profit for the year before tax		6,225.83	14,608.74
Provision for Wealth Tax		0.86	0.42
Provision for Income Tax			
– Current Tax		345.00	714.50
– Fringe benefit tax		12.69	–
– Prior years' tax adjustment		–	(28.50)
– Deferred Tax		2,151.13	5,124.74
Profit for the year		3,716.15	8,797.58
Balance of Profit / (Loss) brought forward from previous year		527.80	(6,271.35)
Balance available for appropriation		4,243.95	2,526.23
Appropriations			
Proposed dividend on Preference Shares		0.01	0.01
Proposed dividend on Equity shares		1,227.03	1,752.61
Corporate Dividend Tax		172.09	245.81
Balance carried to Balance Sheet		2,844.82	527.80
Earnings Per Share			
Basic (in Rs.)		2.12	5.02
Diluted (in Rs.)		1.96	4.63
Significant Accounting Policies	S		
Notes on Accounts	T		
Cash Flow Statement	U		

Schedules referred to above form part of the accounts
As per our report of even date attached

For and on behalf of the Board

For VARMA & VARMA
Chartered Accountants

R. S. SHARMA
Chairman

K M SUKUMARAN
Partner
Membership No. : 15707

R RAJAMANI
Managing Director

L. K. GUPTA
Director (Finance)

New Delhi, 2nd June, 2006

SCHEDULES FORMING PART OF THE BALANCE SHEET

SCHEDULE - A

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
SHARE CAPITAL			
AUTHORISED			
1,900,000,000 Equity Shares of Rs.10 each	**19,000.00**		19,000.00
(Previous Year 1,900,000,000 Equity Shares of Rs 10 each)			
100,000,000 Non-Cumulative, Redeemable,			
Preference Shares of Rs.10 each	**1,000.00**		1,000.00
(Previous Year 100,000,000 Equity Shares of Rs 10 each)		**20,000.00**	20,000.00
		20,000.00	20,000.00
ISSUED,SUBSCRIBED AND PAID UP			
1,752,902,327 (Previous year 1,752,902,327) Equity Shares of Rs. 10 each fully paid up. [out of the above 1,255,354,097 numbers (Previous Year 1,255,354,097 numbers) held by ONGC Limited, the Holding Company]	**17,529.02**		17,529.02
Less : Allotment/Call money in arrears (from other than Directors)	**2.84**		2.88
		17,526.18	17,526.14
9,186,242 (Previous year 9,186,242) 0.01%, Non-Cumulative, Redeemable Preference Shares of Rs.10 each fully paid-up (Redeemable in Two equal annual instalments on 1st July 2011 and 1st July 2012		**91.86**	91.86
		17,618.04	17,618.00

SCHEDULE B

	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
RESERVES AND SURPLUS		
Securities Premium Account		
– As per last Balance Sheet	**3,490.53**	3,490.53
Surplus in Profit and Loss account	**2,844.82**	527.80
	6,335.35	4,018.33

SCHEDULE - C

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
SECURED LOANS			
(a) Foreign Currency Term Loans			
– From Banks		**3,776.80**	4,714.64
(b) Rupee Term Loans			
– From Banks	**753.03**		753.03
– From Financial Institutions	**725.30**		725.30
		1,478.33	1,478.33
(c) Suppliers' Deferred Payment Credit - Foreign Currency		**467.56**	1,377.76
(d) Working Capital facilities			
– From Banks			
Rupee Loans		**74.44**	1,363.64
		5,797.13	8,934.37

NOTES TO SCHEDULE - C

1. A) Foreign Currency Term Loan from a bank of Rs.3,190.34 Millions (Previous Year Rs.3,909.70 Millions) is secured by the letter of comfort/guarantees issued by the local bank in favour of overseas lending branch. These letters of comfort/guarantees are secured by equitable mortgage/hypothecation of Company's immovable and movable properties (save and except book debts) both present and future.
   B) Foreign Currency Term Loan from a bank of Rs 586.46 millions (Previous Year Rs. 804.94 millions) is secured by equitable mortgage/hypothecation of Company's immovable and movable properties (save and except book debts) both present and future.
2. Rupee Term Loans as referred in (b) from Banks of Rs. 753.03 Millions (Previous Year Rs.753.03 millions) and from Financial Institutions of Rs. 725.30 Millions (Previous Year Rs.725.30 Millions) along with all interest, cost charges, expenses and other monies whatsoever payable to Lenders are secured/to be secured by :
   i) Equitable mortgage over the immovable properties, both present & future;
   ii) Hypothecation over the present and future movable properties.
3. Supplier's Deferred Payment Credit - Foreign Currency is guaranteed by the consortium of Banks/Financial Institutions. These guarantees are secured/to be secured by equitable mortgage /hypothecation of Company's immovable and movable properties (save and except book debts) both present and future.

4.1 Working Capital Facilities from banks – Rupee Loans are secured by way of hypothecation of Company's stocks of raw materials, finished goods, stock-in-process, stores, spares, components, book debts, outstanding moneys receivable, claim, bills, contracts, engagements, securities, both present and future and further secured/to be secured by residual charge on Company's immovable and movable properties (save and except Current Assets) both present and future, ranking pari passu inter se.

4.2 Working Capital Facilities from banks - Foreign Currency Loans - balance as on 31.03.2006 Nil (as on 31.03.2005 Nil) are backed/earmarked by Non Fund Based Limits (i.e Letter of Credit) extended by Banks. These Letter of Credit/Non fund based limits are secured/to be secured by way of hypothecation of Company's stocks of raw materials, finished goods, stock –in-process, stores, spares, components, book debts, outstanding money receivable, claim, bills, contracts, engagements, securities, both present and future, ranking pari passu with the Working Capital Facilities.

5. Charges created/to be created in favour of lenders as referred to in note 1,2 & 3, shall rank pari passu inter se and are subject to the charge(s) created /to be created by the company in favour of its bankers on the company's stock of raw materials, semi-finished goods, consumable stores and book debts and such other movables as may be specifically permitted to secure its working capital requirements in the ordinary course of business.

SCHEDULE - D

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
UNSECURED LOANS			
From Banks			
– Foreign Currency Loans *		**10,996.15**	9,851.52
From others			
– From Holding Company	**15,000.00**		15,000.00
– Sales Tax Deferment Loan	**1,279.44**		879.44
		16,279.44	15,879.44
		27,275.59	25,730.96
Amount repayable within one year		**10,996.15**	7,894.41
* Against Corporate Guarantee given by Holding Company		**1,996.27**	2,814.72

SCHEDULE - E

Particulars	Ref Note	GROSS BLOCK - AT COST: As at 1-04-2005 the year	Additions during the year	Sale/ Adjustment	As at 31-03-2006	DEPRECIATION / AMORTISATION: Up to 1-04-2005 the year	Provided during the year	Deletions/ Adjustments	Upto 31-03-2006	NET BLOCK: As at 31-03-2006	As at 31-03-2005
Land - Freehold		80.38	4.34	–	**84.72**	–	–	–	–	**84.72**	80.38
Land - Leasehold	1	212.05	6.55	–	**218.60**	–	0.05	–	**0.05**	**218.55**	212.05
Buildings		2,535.40	6.59	–	**2,541.99**	364.44	47.92	–	**412.36**	**2,129.63**	2,170.96
Plant & Machinery											
– Owned	2,3,4	63,318.17	1,548.11	50.85	**64,815.43**	22,408.17	3,392.25	(568.29)	**26,368.71**	**38,446.72**	40,910.00
– Taken on Lease		1,120.90	–	1,120.90	–	530.52	50.81	581.33	–	–	590.38
Furniture & Fittings		57.33	5.14	0.36	**62.11**	32.12	3.18	0.24	**35.06**	**27.05**	25.21
Vehicles		77.68	11.81	18.73	**70.76**	18.20	5.96	5.49	**18.67**	**52.09**	59.48
TOTAL		**67,401.91**	**1,582.54**	**1,190.84**	**67,793.61**	**23,353.45**	**3,500.17**	**18.77**	**26,834.85**	**40,958.76**	**44,048.46**
Previous year		67,219.52	3,293.72	3,111.33	67,401.91	19,583.39	3,781.43	11.37	23,353.45		

NOTE:

1) Includes an amount of Rs.211.09 millions which has not been amortised in view of the fact that eventually the ownership will get transferred to the Company on expiry of the lease period.

2) Includes an amount of Rs.782.98 Millions (Previous Year Rs 782.98 Millions) being Company's share of an asset jointly owned with another Company.
[Net Block Rs 368.78 millions (Previous Year Rs 410.12 Millions)].

3) Additions during the year includes Rs 1,120.90 Millions (previous year Rs 3,037.56 Millions) towards assets transferred from Leased asset on repurchase of asset on expiry of lease period.

4) Sale/adjustments during the year includes exchange difference, being net decrease in the value of foreign currency liability adjusted to the carrying cost of fixed assets Rs 12.05 millions (Previous year Rs 49.43 millions net decrease).

SCHEDULE - F

	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
INVESTMENTS - AT COST		
Long Term, Non Trade, Unquoted		
7 % Oil Companies' Government of India Special Bonds, 2012	**272.78**	–
	272.78	0.00

SCHEDULE - G

	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
INVENTORIES		
(As taken, valued and certified by the Management)		
Stores, Spares & Chemicals (net of provisions)	**613.79**	385.99
(including in transit Rs.56.90 Millions ; Previous Year Rs.14 Millions)		
Raw Materials	**12,085.99**	9,583.12
(including in transit Rs. 414.51 Millions ; Previous Year Rs. 2,970.46 Millions)		
Stock-in-Process	**829.29**	1,270.70
Finished Products (net of provisions)	**5,377.94**	7,876.36
	18,907.01	19,116.17

SCHEDULE - H

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
SUNDRY DEBTORS			
Unsecured			
Debts due for more than six months			
Considered Good	**1,238.93**		794.28
Considered Doubtful	**170.97**		197.96
Others			
Considered Good	**10,291.27**		8,813.70
Considered Doubtful	**10.15**		251.23
		11,711.32	10,057.17
Less: Provision		**181.12**	449.19
		11,530.20	9,607.96

SCHEDULE - I

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
CASH AND BANK BALANCES			
Cash in hand		0.19	0.20
Cheques in hand		7.54	3.28
Balances with Scheduled Banks			
In Current Accounts (including Refund/interest accounts etc)	24.18		71.75
In Deposit Accounts (under lien/pleldge with Banks/Customs authorities)	19.95		16.40
		44.13	88.15
		51.86	91.63

SCHEDULE - J

	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
OTHER CURRENT ASSETS		
Exports entitlements receivable	3,773.25	3,773.25
Interest accrued	9.75	8.39
	3,783.00	3,781.64

SCHEDULE - K

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
LOANS AND ADVANCES			
Unsecured, considered good			
Loans to Port Trust/Employees		501.63	501.80
Advances recoverable in cash or in kind or for value to be received			
Considered Good	2,073.79		2,828.40
Considered Doubtful	10.28		11.01
	2,084.07		2,839.41
Less: Provision	10.28		11.01
		2,073.79	2,828.40
Balance with Customs, Port Trust,etc.		28.91	55.32
Other Deposits		34.69	27.72
Advance Income Tax / Wealth Tax (Net of Provisions of Rs.757.03 Millions: Previous Year Rs.29.43 Millions)		776.45	838.49
		3,415.47	4,251.73

SCHEDULE - L

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
CURRENT LIABILITIES			
Sundry Creditors			
– Dues to Small Scale Industries	3.61		2.13
– Dues to others	21,313.68		22,223.93
		21,317.29	22,226.06
Advance from Customers		211.46	400.78
Investor Education and Protection Fund shall be credited by:			
(a) Unpaid Dividend*	20.08		
(b) Unpaid Matured Debentures*	137.40		165.07
(c) Interest accrued on above*	50.80		69.54
		208.28	234.61
Other Liabilities		1,013.54	716.95
Interest accrued but not due		38.62	92.93
		22,789.19	23,671.33

* Not due for payment

SCHEDULE - M

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
PROVISIONS			
For Taxation		345.87	714.92
For Retirement Benefits		79.74	76.10
For Proposed dividend			
Preference dividend	0.01		0.01
Equity dividend	1,227.03		1,752.61
Corporate Dividend Tax	172.09		245.81
		1,399.13	1,998.43
		1,824.74	2,789.45

SCHEDULE - N

	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
MISCELLANEOUS EXPENDITURE		
(To the extent not written off or adjusted)		
Extended trial run expenditure	–	305.27
	–	305.27

SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

SCHEDULE - O

	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
OTHER INCOME		
Interest (Gross)	**157.73**	153.66
(Tax deducted at source Rs 2.30 millions ; Previous Year 1.77 Millions.)		
Provisions no longer required written back (net)	**452.46**	133.83
Income from Investments (Tax deducted at source Rs. Nil)	**10.75**	–
Other Miscellaneous income	**146.87**	146.99
Export Benefits under duty free entitlement scheme	–	1,366.70
Exchange Fluctuations (Net)	–	63.18
	767.81	1,864.36

SCHEDULE - P

	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
INCREASE/(DECREASE) IN STOCKS		
Closing Stock		
Stock - in - Process	**829.29**	1,270.70
Finished Products	**5,383.86**	7,876.36
	6,213.15	9,147.06
Less:		
Opening Stock		
Stock - in - Process	**1,270.70**	1,262.27
Finished Products	**7,876.36**	5,941.42
	9,147.06	7,203.69
	(2,933.91)	1,943.37

SCHEDULE - Q

		As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
OPERATING AND OTHER EXPENSES			
Payments to and Provisions for Employees			
Salaries, Wages, Bonus & Gratuity		**417.10**	413.43
Contribution to PF & Other Funds		**36.08**	34.02
Staff Welfare Expenses		**26.46**	22.67
Power & Fuel	**9,477.27**		6,201.46
Less: Own Consumption	**9,441.01**		6,135.79
		36.26	65.67
Repairs & Maintenance			
Plant & Machinery	**270.12**		250.33
Buildings **0.89**		2.21	
Others	**71.34**		45.89
		342.35	298.43
Stores, Spares and Chemicals consumed		**539.86**	198.35
Packing Materials consumed		**117.00**	66.54
Rent		**46.94**	37.65
Insurance		**116.92**	133.53
Rates & Taxes		**28.14**	11.50
Sales Tax		**4,572.11**	2,861.43
Excise Duty on Stocks (Net)		**(299.82)**	179.70
Directors' Sitting Fees		**0.25**	0.20
Loss On Sale of Fixed Assets (Net)		**6.49**	4.57
Exchange Fluctuations (Net)		**711.15**	-
Provision for Doubtful Debts		**84.29**	429.44
Provision for Non-Moving stores & spares		**0.80**	2.00
Miscellaneous Expenses		**503.68**	534.70
		7,286.06	5,293.83

SCHEDULE - R

	As at 31.03.2006 (Rs. in Millions)	As at 31.03.2005 (Rs. in Millions)
INTEREST AND FINANCE CHARGES		
On Fixed Loans	**1,235.51**	1,617.10
Others	**642.16**	679.09
	1,877.67	2,296.19

SCHEDULES FORMING PART OF THE ACCOUNTS

SCHEDULE - S

SIGNIFICANT ACCOUNTING POLICIES

1 **Basis of Presentation / Accounting**

1.1 The financial statements are prepared under the historical cost convention, in accordance with the generally accepted accounting principles and the provisions of the Companies Act, 1956.

1.2 All income and expenses to the extent considered receivable / payable with reasonable certainty are accounted for on accrual basis.

2 **Fixed Assets**

2.1 Land is stated at cost. Other Fixed assets are stated at cost less accumulated depreciation.

2.2 Spares received along with the Plant or Equipment and those purchased subsequently for specific machinery and having irregular use are capitalised.

2.3 During the period of construction, directly identifiable expenses are capitalised at the first instance and all other allocable expenses are capitalised proportionately on the basis of the value of the assets.

3. **Investments**

Long Term Investments are valued at cost. Provision is made for any dimunition, other than temporary in the accounts.

4 **Depreciation**

4.1 Depreciation on Fixed Assets (including those taken on lease) is provided on Straight Line Method, at the rates and in the manner specified in Schedule XIV to the Companies Act, 1956

4.2 Depreciation on amounts capitalised on account of foreign exchange fluctuation is provided prospectively over residual life of the assets.

4.3 Depreciation on spares having irregular use and purchased subsequent to the installation of specific machinery is provided prospectively over residual life of the specific machinery.

5 **Inventories**

Inventories are valued at lower of the cost and net realisable value and the cost has been determined as under :

5.1 Raw material - on First in First Out (FIFO) basis.

5.2 Finished Products - at Raw material and Conversion cost.

5.3 Stock-in-Process - at Raw material and Proportionate Conversion cost.

5.4 Stores and Spares - on weighted average cost basis.

6 **Sales**

'Sale of Products' is inclusive of all statutory levies and is net of discounts.

7 **Claims**

a) Claims/Surrenders on/to Petroleum Planning and Analysis Cell, Government of India are booked on 'in principle acceptance' thereof on the basis of available instructions/clarifications subject to final adjustments, as stipulated. All other claims and provisions are booked on the merits of each case.

b) Export benefits entitlements to the Company viz., Duty free credit entitlement scheme /Target Plus scheme/ Advance Licence scheme under the EXIM policy, are recognised in the year of exports on accrual basis.

8 **Foreign Currency Transactions**

Foreign Currency Transactions are accounted for at the exchange rates prevailing on the date of the transactions.The exchange fluctuation differences on settlement/conversion are adjusted:

(i) to the cost of Fixed Assets, if the foreign currency liability relates to Fixed Assets, and

(ii) to the Profit and Loss Account in other cases. Wherever forward contracts (on revenue account) are entered into, the exchange difference are dealt with in the Profit and Loss account over the period of contracts.

9 **Retirement Benefits**

The Company contributes for Provident Fund to Trust authorities and for Superannuation under the Group Superannuation Scheme of Life Insurance Corporation of India, which are expensed during the year.

Accruing liability towards Gratuity and Leave encashment is provided for on the basis of actuarial valuation carried out at the year end.

10 **Miscellaneous Expenditure**

Expenditure incurred on study conducted on marketing and crude procurement and extended trial run expenditure are treated as Deferred Revenue Expenditure prior to 1st April, 2003 and carried over are being written off equally over a period of 5 years as originally determined.

11 **Leases**

Lease rentals in respect of finance lease are segregated into cost of assets and interest component by applying the implicit rate of return.

12 **Borrowing Costs**

Borrowing costs that are attributable to acquisition, construction or production of qualifying assets are capitalised as part of the cost of such assets. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for intended use. All other borrowing costs are charged to the Profit and Loss Account and /or to deferred revenue expenditure.

13 **Taxes on Income**

Current tax is determined as the amount of tax payable in respect of taxable income for the period. Deferred tax is recognised on timing differences between taxable and accounting income/expenditure that originates in one period and are capable of reversal in one or more subsequent period(s). Deferred Tax Asset is recognised on the basis of virtual/reasonable certainty about its realisability, as applicable.

14 **Impairment**

Impairment of cash generating units/assets is ascertained and considered where the carrying cost exceeds the recoverable amount being the higher of net realisable amount and value in use.

15 **Provisions, Contingent Liabilities and Contingent Assets**

Provisions involving substantial degree of estimation in measurement are recognised when there is a present obligation as a result of past events and it is probable that there will be an outflow of resources. Contingent Assets are neither recognised nor disclosed in the financial statements. Contingent liabilities, if material, are disclosed by way of notes.

16 **Research and Development expenditure**

Capital expenditure on Research and Development is capitalised under the respective fixed assets. Revenue expenditure thereon is charged to Profit and Loss account.

SCHEDULE – T

NOTES ON ACCOUNTS

1. **Contingent Liabilities not provided for in respect of :**

1.1 Corporate Guarantee given by the Company towards loan of Rs.3,372.30 millions sanctioned by certain bankers / financial institutions to New Mangalore Port Trust (NMPT) for construction of Jetties. Amount outstanding as at the close of the year is Rs.735.62 millions (Previous Year Rs.1,018.12 millions).

1.2 Claims against the Company not acknowledged as debt Rs.439.97 Millions (Previous Year Rs.518.09 millions).

1.3 Disputed tax/Duty demands pending on appeal:

a) Income Tax : Rs.863.42 millions (Previous Year Rs.863.42 millions).

b) Commercial Tax: Rs.2,767.39 millions (Previous Year Rs.2,650.25 millions) -includes Rs.474.16 millions relating to projects (Previous Year Rs.474.16 millions)

c) Excise Duty: Rs.1,920.64 millions (Previous Year Rs.123.67 millions).

d) Customs Duty: Rs.12.30 millions (previous year Rs.28.29 Millions)

1.4. The estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances) Rs.1,876 millions (Previous Year Rs.2,759 millions).

2. Capital Work-in-Progress includes Rs.846.23 millions (Previous Year Rs.448.93 million) towards capital advances

3. Loans and Advances :

3.1 Loans to employees / Port Trust represents Loans to employees/ port trust having repayment schedule of more than seven years, balance outstanding is Rs.501.63 millions (Previous Year Rs.501.80 millions).

3.2 Loans and advances include Customs duty paid under protest on project imports Rs.532.39 millions (Previous Year Rs.877.39 millions), Commercial taxes paid under protest Rs.395.42 millions (Previous Year Rs.508.91 millions) and Rs.348.57 millions (Previous Year Rs.348.57 millions) being refund of Central Sales tax receivable from department on account of revision of sales tax returns for the year 2000-01 and 2001-02 and refund claim for the year 2002-03 pursuant to the order of the Department confirming the levy of CST on Excise Duty value of sales, which are pending disposal.

4. **Commercial Tax ince\ntives:**

a) The Company, as per the Government of Karnataka notification, is entitled to Sales Tax deferment loan as follows:

Refinery Project	Maximum Amount (Rs.in millions)	Availment period	Repayment terms
Phase I (3 MMTPA)	400.00 per annum	11 years from the date of issue of notification viz, 26th April 1997	11 annual instalments on year to year basis commencing from the date of completion of the deferment period
Phase II (6 MMTPA)	2,500.00 per annum*	14 years from the date of issue of notification viz., 14th August 2000	14 annual instalments on year to year basis commencing from the date of completion of the deferment period

*can also be availed as exemption of CST.

b) Sales tax deferment loan shown under Unsecured Loans includes a sum of Rs.348.57millions (Previous Year Rs.348.57 millions) relating to CST on excise duty (refer note no.3.2 above) for the years 2000-01, 2001-02 and 2002-03, which were earlier paid under protest and are now being claimed as sales tax deferal loan payable by the Company, in respect of which the assessments are yet to be completed.

5. Certain balances in Sundry Debtors, Loans and Advances and Sundry Creditors are subject to confirmations / reconciliations and adjustments, the effect of which in the opinion of the management will not be significant, and would be carried out as and when settled.

6. Following expenses are included under other heads of expenses –

a) Stores and spares consumed Rs.263.27millions (Previous Year Rs.161.03 millions).

b) Insurance Rs.19.85 millions (Previous year Rs.22.84 millions)

7. The Company is a state controlled enterprise and there are no transactions to be disclosed as per Accounting Standard 18 (AS-18) of Related Party Disclosures issued by the Institute of Chartered Accountants of India.

8. Exports entitlements receivables of Rs.3,773.25 millions (Previous Year Rs.3,773.25 millions) included under 'Other Current Assets' represents credit taken for in respect of Company's entitlement on account of the amount of incremental export turnover achieved during the year 2003-04 and 2004-05 under Duty Free Credit Entitlement scheme and Target Plus Scheme respectively. Applications have been made to the authorities in this respect and the Company is confident of receiving the same.

9. The Company, hitherto was accounting the value of the asset bought under the employees' vehicle and furniture purchase scheme at the total purchase cost including the share of employees' contribution over and above their entitlement. During the year the company has changed the method to account these assets at the employees' entitlement value as per the respective schemes. The effect of this change on the Accounts is not material.

10. Sales/Income from Operations is net of discount on Refinery Transfer Prices of LPG (Domestic) and SKO (PDS) of Rs.2,908.17 million , MS and HSD of Rs.1,077.69 million as advised by OMCs which has been disputed by the company, pending resolution of certain issues.

11. **Dues to Small scale & ancillary industries:**There are no amounts due to the Small Scale and/or Ancillary industrial suppliers as at the close of the year for more than thirty days.This disclosure is based on the information available with the Company.

12. **Taxes on Income :**

12.1 **Current Tax:** Provision has been made for current tax as per Minimum Alternate Tax (MAT) provisions of the Income Tax Act 1961. There is no taxable income under the regular computation in view of the carried forward losses.

12.2 **Deferred Tax:** The break up of net Deferred Tax Liability/Asset is as under:

Particulars	**As on 31.3.2006 (Rs. In millions)**		**As on 31.3.2005 (Rs. In millions)**	
Deferred	**Deferred Tax Asset**	**Deferred Tax Liability**	**Deferred Tax Asset**	**Tax Liability**
Timing differences on account of:				
Unabsorbed losses and allowances		7,074.98	9,592.65	
Book and Income tax depreciation		7,993.33		8,222.76
Lease Finance		666.69		742.39
Deferred Revenue Expenditure				76.62
Others	213.70		228.91	
Total	7,288.68	8,660.02	9,821.56	9,041.77
Net Deferred Tax Liability / Asset		1371.34	779.79	

13. **Basic and Diluted Earnings Per Share:**

	31.3.2006 (Rs. in millions)	31.3.2005 (Rs. in millions)
Numerator – Net Profit		
Basic	**3716.15**	8797.58
Diluted	**3716.15**	8797.58
Denominator–Average number of Equity Shares outstanding during the year		
Basic	**1,752,902,327**	1,752,902,327
Diluted	**1,900,735,516**	1,900,735,516
Nominal Value per share	**Rs 10 each**	Rs 10 each
Earnings Per Share		
Basic (in Rupees)	**2.12**	5.02
Diluted (in Rupees)	**1.96**	4.63

Reconciliation of Basic and Diluted Earnings Per Share

	(Rs. in millions)	(Rs. in millions)
Net Profit	**3,716.15**	8,797.58
Add interest on dilutive portion of loans (Net of tax)	-	-
	3,716.15	8,797.58
Average No. of Equity shares	**1,75,29,02,327**	1,75,29,02,327
Number of shares in respect of loans having conversion clause	**14,78,33,189**	14,78,33,189
	1,90,07,35,516	1,90,07,35,516

14. **Segment Reporting :**
The Company is engaged in refining the crude oil and all activities of the Company revolve around this business and the operations are mainly in India. As such there is no other reportable segment as defined by the Accounting Standard 17 – Segment Reporting issued by the Institute of Chartered Accountants of India.

15.

	31.03.2006		31.03.2005	
	Foreign currency (in million)	Equivalent Rupees (in million)	Foreign currency	Equivalent Rupees
a) Forward covers which are hedged (Equivalent US $ 25.045)	JPY 2956.18	1,123.49	Nil	Nil

b) The purpose of Forward Booking was hedging exchange fluctuation risk in JPY – US $ rates for repayment of Buyer's Credit loan.

c) Foreign exchange exposures not hedged by Derivative instruments or otherwise (net)

Sl. No.	Particulars	31.03.2006 (In millions)		31.03.2005 (In millions)	
		Foreign Currency	Equivalent Rupees	Foreign Currency	Equivalent Rupees
1.	Buyer's Credit	*US$ 194.55	8,727.26	US$ 143.99	6,333.12
2.	Export Packing Credit	US$ 50.00	2,243.00	US$ 80.00	3,518.40
3.	Term Loan	US$ 84.19	3,776.80	US$ 107.19	4,714.64
4.	Suppliers Credit (Term Loan)	JPY 1,220.76	467.55	US$ 3,356.29	1,377.75
5.	Import creditors Euro	0.15	8.21	-	-
	-do-	US$ 280.09	12,564.72	US$ 210.10	9,240.34
6.	Export receivables	US$ 98.99	4,400.12	US$ 39.06	1,704.54

* includes US$25.045 million; Rs. 1,123.49 relating to Buyers' Credit as mentioned in a) above where US$ currency exposure is not hedged.

16. Additional Information pursuant to the Provisions of Paragraphs 3,4-C and 4-D of Part II of Schedule-VI to the Companies Act,1956

	2005-2006		2004-2005	
	Qty. (M.T.)	Value Rs. in Millions	Qty. (M.T.)	Value Rs. in Millions
a) Licensed Capacity	**Delicensed**		Delicensed	
b) Installed Capacity As certified by the Management and relied upon by the auditors	**9,690,000**	–	9,690,000	–
c) Opening stock of Petroleum products	**384,873**	**7,876.36**	369,609	5,941.42
d) Closing stock of Petroleum products	**221,786**	**5,377.94**	384,873	7,876.36
e) Actual Production of Petroleum products *	**11,336,488**	–	11,074,630	–
f) Sale of Petroleum products	**11,499,575**	**282,428.64**	11,059,366	206,925.50
g) Details of products purchased and sold				
High Speed Diesel oil	–	–	1,100	28.29
h) CIF value of imports				
- Capital goods		**36.96**		15.92
- Raw materials - Direct		**163,675.49**		103,272.04
- Stores, Spares and Chemicals		**492.82**		79.03
i) Expenditure in Foreign Currency (On actual payment basis)				
- Interest		**654.60**		669.56
- Others		**92.60**		111.91
j) Earnings in Foreign currency-FOB value of exports Includes Rs Nil (previous year 5293.16 millions) through M/s. Indian Oil Corpn. Ltd.		**119,171.92**		61,913.21
k) Payment to Auditors				
- Audit Fees		**0.90**		0.80
- Tax Audit Fees		**0.18**		0.16
- For Certification		**0.39**		0.39
- Reimbursement of Expenses		**0.19**		0.11

l) Consumption of Raw materials, Stores, Spares and Chemicals

	2005-06			2004-05		
	(in M.T.)	Value in millions Rs.	(%)	(in M.T.)	Value in millions Rs.	(%)
Raw materials - Crude Oil						
- Imported	**8,926,192**	**164,135.69**	**71.89%**	8,256,832	107,024.87	65.83%
- Indigenous	**3,191,175**	**64,178.62**	**28.11%**	3,591,283	55,552.46	34.17%
	12,117,367	**228,314.31**		11,848,115	162,577.33	
Stores, Spares and Chemicals						
- Imported		**501.43**	**62.43%**		114.16	31.77%
- Indigenous		**301.70**	**37.57%**		245.22	68.23%
		803.13			359.38	

* Excludes own consumption : 717,252 M.T. (Previous year 701,656 MT)

17. Number of non resident shareholders and the dividend remitted: No.28,011 ; Amount remitted Rs. 20.37 million (Previous year Nil)

18. Previous year's figures have been re-grouped/re-arranged wherever necessary to conform to the current year's presentation.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31st MARCH, 2006.

(Rupees in million)

SCHEDULE - U

		For the year ended 31.03.2006 (Rs. in Millions)		For the year ended 31.03.2005 (Rs. in Millions)	
A.	**CASH FLOW FROM OPERATING ACTIVITIES :**				
	Profit/(Loss) Before Tax	6,225.83		14,608.74	
	Adjustments for:				
	– Depreciation / Amortisation	3,500.17		3,781.43	
	– Loss/(profit) on sale of Fixed Assets	6.49		4.57	
	– Provisions Written Back	(452.46)		(133.83)	
	– Provision for doubtful recovery / obsolete inventory	(267.27)		431.44	
	– Miscellaneous Expenditure written off	305.27		305.27	
	– Interest Expense	1,877.67		2,296.19	
	– Interest Income	(157.73)		(153.66)	
	Operating Profit before Working Capital changes	11,037.97		21,140.15	
	Adjustments for:				
	– Trade and other receivables	(1,186.95)		(5,519.01)	
	– Inventories	208.36		(7,224.72)	
	– Trade payables and Provisions	(398.71)		8,987.59	
	Cash generated from Operations	9,660.67		17,384.01	
	– Income tax paid (net of refunds)	(358.55)		(686.42)	
	Net Cash from Operating Activities (A)		9,302.12		16,697.59
B.	**CASH FLOW FROM INVESTING ACTIVITIES**				
	Purchase of Fixed assets	(3,790.46)		(860.89)	
	Sale of Fixed assets	32.63		8.40	
	Interest Income received	156.37		158.44	
	Investment in Oil bonds	(272.78)		–	
	Net Cash used in Investing Activities (B)	(3,874.24)		(694.05)	
C.	**CASH FLOW FROM FINANCING ACTIVITIES**				
	Proceeds from Issue of Share Capital	0.04		0.01	
	Proceeds from Long Term borrowings	(1,435.99)		(10,539.01)	
	Proceeds from Short Term borrowings	(144.57)		(3,189.17)	
	Interest and Finance Charges paid	(1,931.98)		(2,450.37)	
	Dividend and Dividend Tax paid	(1,978.35)		–	
	Net Cash used in Financing Activities (C)		(5,490.85)		(16,178.54)
	Net Increase / (Decrease) in Cash and Cash Equivalents (A+B+C)		(62.97)		(175.00)
	Cash and Cash Equivalents as at the beginning of the year		71.68		246.68
	Cash and Cash Equivalents as at the end of the year		8.71		71.68
			(62.97)		(175.00)

NOTES:

1) Cash and cash equivalents include cash, cheques in hand and balance with scheduled banks and excludes balances in current account/deposit account of interest warrant/refund accounts, under lien, pledge with banks/Govt. authorities Rs. 43.15 millions ; (Previous year Rs. 19.95 millions)
2) Previous year's figures have been re-grouped / re-arranged wherever necessary to conform to the current year's presentation.

Signatures to Schedules 'A' to 'U'
As per our report of even date attached
For VARMA & VARMA
Chartered Accountants
K M SUKUMARAN
Partner
Membership No. : 15707

New Delhi, 2nd June, 2006

For and on behalf of the Board
R. S. SHARMA
Chairman
R RAJAMANI
Managing Director

L. K. GUPTA
Director (Finance)

BALANCE SHEET ABSTRACT AND A COMPANY'S GENERAL BUSINESS PROFILE

I. REGISTRATION DETAILS

Registration No.: 08/08959/1988 State Code: 08 Balance Sheet Date: 31st March, 2006

II. CAPITAL RAISED DURING THE YEAR (AMOUNT IN RS. THOUSANDS)

Public Issue*	Right Issue	Bonus Issue	Private Placement
37	NIL	NIL	--

* Represents realisation of allotment/call money in arrears.

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMOUNT IN RS. THOUSANDS)

Total Liabilities	Total Assets
58,397,451	58,397,451

SOURCES OF FUNDS

Paid Up Capital	Reserves And Surplus	Secured Loans	Unsecured Loans	Deferred Tax Liability
17,618,043	6,335,349	5,797,130	27,275,594	1,371,335

APPLICATION OF FUNDS

Net Fixed Assets	Investments	Net Current Assets
45,051,055	272,780.00	13,073,616

IV. PERFORMANCE OF COMPANY (AMOUNT IN RS. THOUSANDS)

Turnover	Total Expenditure	Profit/(Loss) Before Tax	Profit/(Loss) After Tax
249,675,404	243,449,578	6,225,826	3,716,146

Earnings Per Share	Dividend @ %
2.12	7.00

V. GENERIC NAMES OF THREE PRINCIPAL PRODUCTS/SERVICES OF COMPANY (AS PER MONETARY TERMS)

Item Code No (Itc Code)	Product Description
271019.30	High Speed Diesel Oil
271019.20	Aviation Turbine Fuel
271019.90	Naphtha

For VARMA & VARMA
Chartered Accountants

K M SUKUMARAN
Partner
Membership No. : 15707

New Delhi, 2nd June, 2006

For and on behalf of the Board
R. S. SHARMA
Chairman

R RAJAMANI
Managing Director

L. K. GUPTA
Director (Finance)

ओएनजीसी विदेश
ONGC VIDESH
ONGC Videsh Ltd.

ONGC
NILE GANGA B.V.
ONGC Nile Ganga B.V.

ONGC
एमआरपीएल
MRPL
Mangalore Refinery and Petrochemicals Ltd.