

**Statement of Mr. Ashok Sinha,
Chairman and Managing Director,
at the Annual General Meeting of Shareholders
on 22nd September 2008 at Mumbai**

Dear Shareowners,

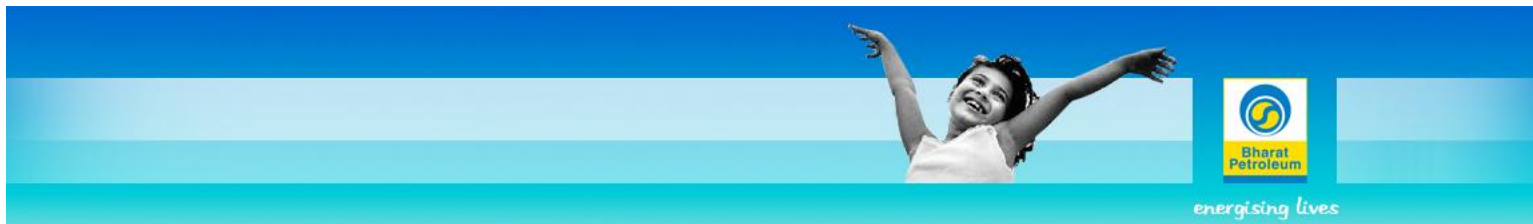
On behalf of the Board of Directors and on my own behalf, I would like to extend a very warm welcome to all of you to the 55th Annual General Meeting of Bharat Petroleum Corporation.

The Notice of the AGM, Directors' Report and Audited Accounts for the year ended 31st March, 2008 are already with you and with your permission, I take them as read.

The year gone by has been very challenging, particularly for the downstream oil sector in India. Notwithstanding the difficulties encountered, BPC has performed creditably in all areas of operations. The two refineries at Mumbai and Kochi achieved their highest levels of crude throughput. Further, the refineries have also been successful in achieving higher levels of gross refining margins as compared to 2006-07. Sales volumes have maintained their healthy growth rate. The commissioning of the Single Point Mooring project at Kochi means that BPC is now in a position to bring crude oil in very large crude carriers, thereby achieving freight economics. At the same time, the under-recoveries on the sale of sensitive products have contributed to the decline in the profit after tax. On the capital expenditure front, I am happy to inform you that in spite of liquidity constraints, BPC has not compromised on its capital expenditure plans. The new refinery at Bina being set up by the joint venture company, Bharat Oman Refinery Limited is progressing well. The Capacity Expansion and Modernisation Project at Kochi Refinery is also on track. BPC has joined hands with the other public sector oil companies and the Oil Industry Development Board in promoting the setting up of the Rajiv Gandhi Institute of Petroleum Technology as an 'Institute of National Importance.' The prime objective of the Institute is to provide world class education, training and research to roll out qualified human resources to meet the growing requirements in the country. The academic session for the first batch of students has recently commenced.

Economic Scenario

We are passing through some very turbulent times. The global woes have had a major impact on the Indian economy. In addition, several parts of the country have been impacted by the flooding of major rivers. In particular, places like Bihar have suffered unprecedented damage. The growth in the economy is showing signs of a pause. Inflationary pressures continue to remain a serious cause for concern. While there has been a reduction in global oil prices, they continue to remain at levels which are worrisome for countries like India which are major importers of crude oil. Interest rates have been on the uptrend as the monetary authorities continue their efforts to rein in the rising price levels. The gradual depreciation of the rupee has also impacted the performance of companies on account of the increase in the cost of imports. The power situation in many parts of the country has been another major challenge.



Downstream Oil Sector

The downstream oil industry in India has not remained immune to the difficult economic situation. In fact, it had to grapple with severe liquidity constraints. With crude oil prices in the international markets touching record levels, the downstream oil companies suffered rising levels of under-recoveries due to their inability to pass on the burden of the rising prices in respect of the sensitive petroleum products. The spurt in the demand for products like diesel has further stretched the supply lines. Although prices were increased and changes introduced in the duty structure in June 2008, the problem remains on account of the continuing gap between the international prices and the retail selling prices. The Reserve Bank of India had tried to mitigate the difficulties of the oil marketing companies by opening a special window for permitting the use of oil bonds for financing the crude oil imports. This has provided a welcome breather to the oil companies.

The Prime Minister had recently constituted a High Powered Committee under the Chairmanship of Shri B. K. Chaturvedi, Member, Planning Commission to examine the financial position of the oil companies and to explore the available options for sharing of the burden by all the stakeholders. The Committee has since given its recommendations on a wide gamut of issues. These are currently under the consideration of the Government.

BPC's Plans and Initiatives

Upstream and Refining Sectors

With a view to secure its crude oil and natural gas requirements, BPC had ventured into the upstream Exploration & Production sector through its fully owned subsidiary company, Bharat PetroResources Limited (BPRL). Entry into the upstream arena would enable BPC to realize the benefits of vertical integration and hedge its price risks. As on date, BPRL has participating interests in 13 blocks, both in India and abroad. In all these blocks, the Company has associated itself with some of the leading players in this area. Given the nature of the oil exploration business, it will be some time before the results of the investments made will be known. In addition to carrying on the planned work programme, BPRL has been looking for promising opportunities across the world. BPRL, in association with Videocon Industries Limited (VIL), has entered into an agreement to buy the entire stake of Encana Brasil Petroleo Limitada. With this, BPRL and VIL will farm into 10 offshore exploration blocks in Brazil. Similarly, BPRL and VIL have together farmed into an exploration block in Mozambique. Both these deals will be completed after receipt of the necessary statutory clearances. Armed with a well balanced portfolio of assets, BPRL has drawn up ambitious plans with a committed investment of Rs. 1500 crores on the projects on hand. We are confident that as we move forward, BPRL would be well positioned to meet its objectives.

The installed refining capacity of the BPC group stands at 22.5 Million Metric Tonnes per annum (MMTPA) which is slated to go up to 24 MMTPA after the completion of the Capacity Expansion and Modernisation Project at Kochi. This will be further augmented with the setting up of a 6 MMTPA refinery at Bina in Madhya Pradesh. The Bina refinery will help BPC meet the requirements of the key markets in central and northern India. The Rs. 10,378 crores project is progressing smoothly and is slated for commissioning in December 2009. As on date, the cumulative commitments on the project have crossed Rs. 9,275 crores and cumulative physical progress achieved is around 75%.

Non-conventional Sources of Energy

The per capita energy consumption in India is on the rise and will increase further as the economy grows. Many parts of the country are already suffering from deficit of power leading to increased use of diesel for generators. There is thus an urgent need to improve the power situation, which apart from supporting the economic growth, can reduce the diesel consumption for power generation. At the same time, there is a growing realization that there are limits to the availability of fossil fuels; hence, there is a need to focus more on the non-conventional renewable sources of energy. As an integral part of the crucial energy sector, BPC has a major responsibility in



ensuring that the energy needs of the country are satisfied in a sustainable manner, thereby promoting economic growth.

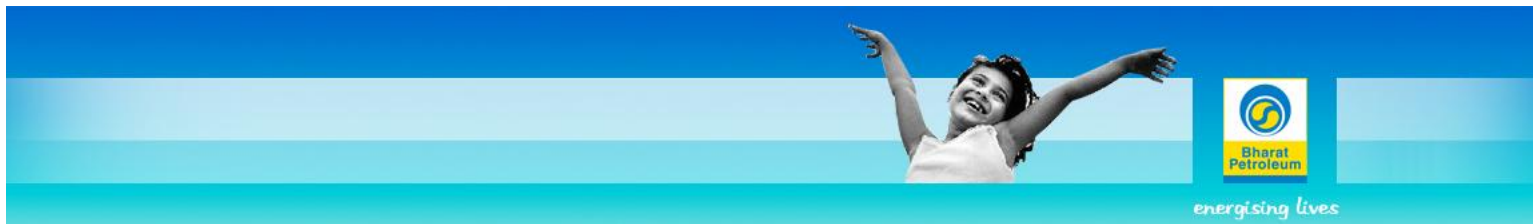
With a view to meet these expectations, BPC has made ambitious plans in terms of diversifying into other related areas. In its quest to achieve sustainable development, BPC has entered the biodiesel value chain in a big way. One of the first projects being undertaken in the state of Uttar Pradesh would ultimately involve the plantation of jatropha plants in 1 million acres of wasteland and production of 1 million tonnes of biodiesel with employment being generated for 1 million people by the year 2015. With the State Government of Uttar Pradesh supporting the project and cost of saplings, including cost of plantation being released from the National Rural Employment Guarantee Scheme, the project has taken off on a promising note. A new company, Bharat Renewable Energy Limited has been incorporated as a joint venture with Nandan Biomatrix Limited and Shapoorji Pallonji Co Limited, which will be responsible for the collection and crushing of jatropha fruits, esterification etc. The total investment in the project is expected to be of the order of Rs. 2200 crores. Success in this area can make a major contribution towards substitution of fossil fuels to the extent of the biodiesel produced. Also, this can be a means of providing the rural population with employment and income generation opportunities on a sustained basis. BPC is exploring the possibility of initiating similar projects in other states.

BPC is also focusing attention on other renewable sources of energy. A 1 MW capacity grid connected solar farm is being set up in the state of Punjab. The objective is to generate electricity and make it available to the state grid. Given the climatic conditions prevailing in many parts of the country, experts believe that India is well positioned to generate significant amounts of solar energy. Tapping of this potential can go a long way in meeting the energy needs of the country in a clean and sustainable manner. BPC would like to contribute in this endeavour. Based on the results achieved in the pilot project, BPC will undertake similar projects at other locations.

BPC has recently developed a prototype fuel cell based energy system using hydrogen as a fuel. The project involves the production of hydrogen by electrolysis of alkaline water. The hydrogen produced is supplied to a proton exchange membrane fuel cell, which in turn generates power. While the project is only a prototype, commercialization of the technology offers the potential for generation of clean, renewable and regenerative energy with the added benefits of reducing noise and air pollution.

These initiatives are in addition to BPC's ongoing efforts to generate power by setting up windmills at different locations. These efforts will contribute to generating renewable sources of power which can be used for meeting BPC's captive requirements. BPC has also entered into an agreement with the Indian Institute of Science, Bangalore in the frontier area of Nanotechnology. These programmes, which are making satisfactory progress, encompass understanding the role of additives at nano levels, which would help our R & D scientists to produce tailor-made cutting oils for different types of machining of metals. The agreement also envisages evaluation of new nanomaterials for adsorption of clean gaseous fuels like natural gas and hydrogen for use in the transport sector. BPC is also joining hands with the Institute in the development of a new generation of solar photovoltaics. This project involves new generation of solar cells with new materials with higher efficiencies compared to conventional silicon solar cells. These are some of the initiatives which are designed to augment BPC's fossil fuel businesses by focusing on emerging frontier technologies in the field of energy. It is yet another step in the direction of the Company integrating its economic and social agendas so that sustainable development of alternate energy sources is achieved in the long run.

Entry into these non-conventional areas is driven by our strong belief that these offer great potential in meeting the country's growing energy needs. Besides, these ventures would involve limited investment particularly in the initial stages. Keeping all these aspects in mind, your approval was sought for the amendment of the Objects Clause of the Memorandum of Association to enable the Company to commence the new businesses and diversify



into areas of non-conventional sources of energy, climate control solutions, water management services etc. I am glad to inform you that the amendment has been approved by an overwhelming margin. While the vote of confidence given is indeed a matter of great pride, it also places a great responsibility for living up to the expectations of you, the Shareowners.

BPC has not let the tough environment in which it is currently operating to come in the way of implementing its plans and fulfilling its role as an important player in the Indian energy sector.

BPC Group Performance

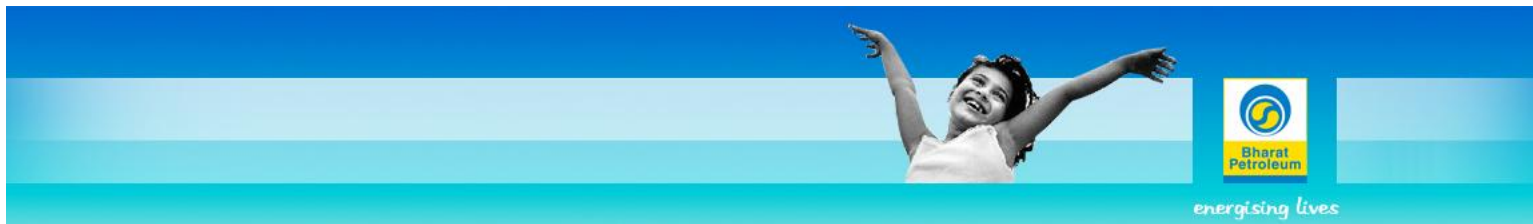
During the year 2007-08, the aggregate refinery throughput at BPC's refineries in Mumbai and Kochi, along with that of BPC's subsidiary company, Numaligarh Refinery Limited, stood at 23.52 Million Metric Tonnes (MMT), as against 22.28 MMT in the previous year. This was possible on account of all the three refineries achieving their highest level of crude processing in a single financial year. With refining margins remaining firm during the year, this record performance in the refining arena has to some extent mitigated the losses on the sales of sensitive petroleum products.

The sales volume for the BPC group increased to 26.08 MMT in 2007-08 as compared to the sales volume of 23.66 MMT in 2006-07. In addition, the BPC group also achieved export volumes of 1.93 MMT of petroleum products as compared to 1.72 MMT in the previous year. There has however been a decline in the group's profit after tax, mainly on account of inability to increase the retail selling prices of petrol, diesel, LPG and kerosene. After setting off the minority interest, the consolidated earnings attributable to the BPC Shareowners declined to Rs. 48.94 per share from a level of Rs. 59.33 per share in 2006-07.

On a standalone basis, BPC ended the year with a turnover of Rs. 1,21,684 crores. However, the net profit for the year declined to Rs. 1581 crores from Rs. 1805 crores in 2006-07. The Board of Directors has recommended a dividend of Rs. 4 per share. This will absorb a sum of Rs. 153.78 crores out of the profit after tax inclusive of Rs. 9.16 crores towards corporate dividend tax.

Each of the Strategic Business Units has delivered excellent results during the year. BPC's market share amongst the public sector oil companies stood at 22.7% as at 31st March, 2008. The Retail business unit achieved an impressive growth of 13.37% in sales volume over the previous year. BPC's initiatives in the retail segment were well received in the market. BPC has also been in the forefront of achieving automation of the retail outlets and other customer friendly measures. The Industrial & Commercial business achieved a major milestone by crossing the 7 MMT mark in sales volume. Efforts are being made to enhance the sales volume of high margin products and BPC has recently made an entry into the global bunkering business. BPC continued to have a significant presence in the RLNG market. BPC achieved excellent results in the Lubricants business, where the retail channel has been the area of focus. Besides, export volumes have picked up considerably. The LPG business has been successful in enhancing volumes under the Beyond LPG initiative and Bharat Metal Cutting Gas. The Aviation business has also been successful in holding its own in the highly competitive market.

Even in the field of sports, members of the BPC family have several notable achievements. Abhijeet Gupta was anointed as the World Junior Chess Champion in the Men's category in the World Junior Chess Championship at Turkey. Saina Nehwal, after reaching the quarter finals of the Badminton event at the recently concluded Beijing Olympics, went on to clinch the title at the Chinese Taipei Gold Grand Prix, one of the highly rated events in the international calendar. Similarly, Devendra Joshi finished runner up at the recently concluded World Billiards Championship. The Government of India conferred the Arjuna award on Anup Shridhar for his achievements in Badminton.



As I mentioned earlier, the high crude oil prices have led to rising under-recoveries due to which BPC has provisionally posted a loss for the first quarter of the current year. With the oil prices showing some signs of easing and the Government of India considering various measures to tackle the difficult financial position of the oil companies, I am confident we will be able to weather this storm and be successful in the long run.

Corporate Governance

BPC remains committed to achieving the highest standards of corporate governance. Systems are put in place and reviewed regularly to ensure compliance with all applicable laws, regulations and guidelines. BPC has recently gone in for the implementation of the Integrity Pact with a view to achieve transparency, fairness and consistency in all its dealings with vendors. Independent External Monitors have been appointed and workshops have been held with vendors to enroll them in this programme.

Acknowledgements

BPC has remained focused in meeting customer expectations at all times. However, the success of all new initiatives will depend on the customer facing dealers and distributors. BPC has been extremely fortunate to have been blessed with dealers and distributors who share the Company's passion in terms of meeting the high expectations of the customer. I would like to record my deep sense of appreciation for all the efforts put in by the dealers and distributors in keeping the BPC flag flying high. I would also like to acknowledge the constructive role played by all our suppliers and contractors and other partners like bankers and financial institutions.

I am extremely grateful for the unstinting support and guidance provided by the Ministry of Petroleum & Natural Gas and the other Ministries of the Central Government and various State Governments. I would like to specially acknowledge the support extended by the Ministry of Finance and the Reserve Bank of India in helping the downstream oil marketing companies cope with the extraordinary situation which has impacted their liquidity.

The commitment and untiring efforts of BPC's employees at all levels have contributed immensely to the outstanding results achieved on various fronts. My colleagues on the Board join me in acknowledging the important contributions made by each and every employee which has resulted in BPC achieving its corporate objectives.

I would like to acknowledge the valuable contribution of Shri S. A. Narayan, Shri V. D. Gupta and Shri P. C. Sen during their tenure as Directors of the Company.

I also thank all my colleagues on the Board, whose leadership and experience have been of great help in steering the organization through some of the most difficult and challenging times.

Finally, I would like to thank each one of you - BPC's family of Shareowners, for your continuing confidence in our ability to take the organization to greater heights.

Thank you, ladies and gentlemen.

Ashok Sinha

22nd September 2008



energising lives