

CHAIRMAN'S MESSAGE

The year 2011-12 for IndianOil was one with very many significant positives, yet some of the negatives, mostly due to external factors beyond its control continued to make its impact. Some of the significant achievements were the stabilization of petrochemical operations at Panipat Complex, ensuring it operated at 100% capacity from May'12 onwards; achieving the highest ever throughput in our refineries, recording 102% capacity utilization marking the fifth consecutive year that we have done this; improving distillate yield to a record 77.8% and achieving the lowest MBN (indicating the combined energy utilization factor); record highest ever products sale as well as open the highest number of retail outlets in any one of the last five years, with over 60% outlets of them in high growth rural centres. We also automated the highest number of outlets in any one year, which helped in improving our customer connect.

Our Gross Refinery Margins have gone through a tumultuous phase being at reasonable levels in the first six months and thereafter plunging into a tightening trajectory before recovering in the last quarter of the year. Despite the tight GRMs for the year, we were able to push up our supplies and achieve healthy profit levels. Imposition of Entry Tax by the State Govt. of UP on crude oil received at our Mathura Refinery and the subsequent vacation of the Stay Order granted to the Corporation by the Hon'ble Supreme Court had its implications. Consequent to the payment of entry tax, retrospectively from 2007 onwards, wiped off our profits resulting in a lowered profit after tax of ₹ 3955 crore. While we have taken various steps to pass on, prospectively, a sizeable component of this tax through sale of major petroleum products in the State, we are still hopeful to see if the impact of entry tax for the past period can be mitigated. On the whole, our business, barring such one-time burdens continued to grow at a healthy pace, helping us retain market leadership in India's Downstream Sector.

Globally, the Oil & Gas industry continued to be impacted by geo-political tensions rocking the oil markets and bringing in a heightened volatility in oil prices. Despite the supply dislocations and increase in demand albeit at a reduced pace due to drop in consumption in OECD countries, there was continued healthy demand from emerging economies. The good news also came in the form of increase in gas and oil production in the United States. The continued tensions at the global flashpoints with supply-demand mismatch manifested in high crude oil prices with the Brent average at USD 115/bbl during the year vis a vis USD 87/bbl in 2010-11. The emergence of US as a potential petroleum product and gas exporter was a game changer which will definitely impact the dynamics of Oil & Gas markets in the coming years. The other high impact development is the discovery of huge gas resources in some



countries in the African Region. Possibilities of Shale gas and oil in certain countries would further impact these dynamics of energy market.

Undoubtedly, we are in for an interesting and at the same time uncertain times and a continued vigil and understanding of the markets will be the key to enable us to maneuver through the emerging scenario. The refining sector is especially expected to pass through a tough time primarily because of the slowdown in growth all around, including in scaling down of growth rates in emerging



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economies from Asia essentially due to the increased inter-connectivity of the global business. The refining margins have also been undergoing surprising swings. There has been increased realization of these emerging global developments in recent times in the Corporation and a number of initiatives are already in place to gear up and optimize our operations to remain in healthy state of affairs. Building up our capability to process heavier crudes is a part of such initiatives besides an emphasis on improving Supply Chain Management and minimizing logistics costs.

As a country, we have achieved 8-9% growth rates continuously over the last six years. However, the year 2011-12 saw the growth rate plummet to 6.5%, although, still much higher than many other countries. The widening fiscal deficit and trade gap, combined with high inflation and reduced growth has pushed the country at the moment into the danger zone of stagflation, having the worst of both the worlds - anemic growth and high inflation. POL demand growth on the other hand remains robust at 4.9%, and in terms of value crude oil imports stood at 7.5% of the GDP - easily amongst the highest in the world. Due to uncertainties in domestic gas production, we have turned into the third largest importer of natural gas among Asian countries, after Japan and South Korea. If the country has to continue to grow on a high trajectory, access to energy has to be ensured. The unfortunate aspect of the current policy of subsidization of the energy products in the country is that it is reducing the maneuvering space for policy makers both ways. While subsidies promote inefficient use of products, the rising demand for them forces imports thereby hitting both our fiscal and trade deficit. All these portend to a serious need for structural and policy changes or else the India Energy growth story is going to unravel very differently.

Despite the challenges, IndianOil continued to do well and with a series of initiatives taken, will continue to do well in all our operations be it in refining, pipeline transportation and marketing of petroleum products etc. We have lined up more than ₹ 46000 crore in a host of projects for augmentation of refining, pipelines and petrochemicals capacities, expansion of marketing infrastructure, technology induction, product quality upgradation etc. In petrochemicals we are uniquely poised to take full advantage of the growth opportunities. India's polymer market is set to grow to over 12 MMTPA in the next five years supported by demographics, changing lifestyles and growing income levels. The Indian petrochemicals industry will face competition from hubs in China, Singapore and West Asia for global markets yet the growing market of India and our



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competitiveness, places us in a unique position to tap these opportunities. All these projects, including the petrochemical value projects, new grass-root refinery at Paradip, Butadiene extraction unit at Panipat, FCC revamp at Mathura as well as new pipelines like Paradip-Raipur-Ranchi and Paradip-Haldia-Durgapur (LPG), are intended to ensure availability of the petro products to our customers on one hand and enhancing our profitability on the other.

For over five decades, IndianOil has been the standard bearer in the petroleum business in India, delivering energy assurance to several generations of Indians. We have continued to invest in not only our existing business but also diversified into related areas. Many of the cutting edge breakthroughs in alternative fuels like Biodiesel, HCNG and Biotechnology have been nurtured by us. Across India, whether it is in the deserts of Rajasthan, the verdant landscape of the North East, the Deccan Plateau or the distant outreaches of Andamans, we have always delivered. Our footprints can be found in many foreign countries as well.

When a new generation arrives we will be there to meet the Future of Energy. This we shall do, well aware that sustainable energy solutions are not just a short term fix but a long term value. In fact, our diversifications into Wind Energy, Solar Power and Nuclear Power only demonstrates to generation next our continued commitment and is expected to take us to the next logical step in our progression as a truly world class energy company.

Our endeavor continues to ensure that future India will have the assurance of inclusive growth and uninterrupted clean energy. The task before us is enormous to say the least, with the present scenario of price uncertainty, political instability in pockets of the world and general economic volatility the challenge of investing for the future is even more daunting. But we have faced several such tests in the past. I want to thank all our customers and shareholders for their understanding and unstinted support. With the power of the stakeholders behind us and dedication of the IndianOilPeople nothing is impossible.

R.S. Butola
Chairman



Commitment to Sustainable Solutions