BUSINESS DEVELOPMENT

Your Corporation has drawn up a comprehensive business plan to seek growth beyond existing business through a three-pronged approach:

- Integration – upwards into Exploration & Production (E&P) and downwards into Petrochemicals
- Diversification into Gas
- Expanding the existing geographical boundaries of our market through export of products and services, besides setting up downstream marketing ventures overseas.

Exploration & Production

The rationale behind IndianOil’s foray into E&P business is two-fold: One, to emerge as an integrated oil major and the other, to aid in the oil security of the nation. Presence in E&P business will also provide us a hedge when the downstream sector faces a cyclical low.

Your Corporation had participated in the NELP (New Exploration Licencing Policy) Rounds I, II and III in India, in consortium with other companies, and was awarded 11 exploration blocks. During the year, your Corporation has farmed into two domestic exploration blocks situated in the Assam-Arakan and Cachar region.

Besides significant progress on these projects on the domestic front, your corporation’s first exploratory well overseas is scheduled to be spudded by the end of 2005 in the Farsi Exploration Block in Iran. Within months of signing an MoU for collaboration in E&P ventures abroad, the IndianOil-Oil India consortium achieved a major breakthrough overseas by bagging an onshore block in the highly prospective Sirte Basin in Libya against stiff global competition.

Your Corporation is also looking at acquiring a suitable mid-size overseas E&P company to give a major fillip to its upstream forays in the coming years.

Gas

As the fuel of the future, the share of gas in the Indian energy basket is on the rise and is expected to reach 20% by the year 2025. Your Corporation, therefore, took further steps to expand and strengthen its gas business during the year, to ensure its continued dominance in the domestic petroleum sector.

The Indian gas market is currently in a transition phase, moving away from a supply-constrained scenario to a multi-source, multi-market entity. Recognising the need for sourcing LNG (Liquefied Natural Gas) at competitive prices from varied sources, your Corporation has taken several steps in this direction.

As part of the Government-to-Government understanding between India and Iran on cooperation in the hydrocarbon sector, your Corporation signed a Sale Purchase Agreement in June 2005 for procuring 1.75 million tonnes of LNG per annum from Iran. The product is to be received from the year 2009 at Petronet LNG Ltd.’s Dahej Terminal. Arising out of this deal alone, your Corporation’s turnover is expected to go up by Rs. 1,800 crore annually.

To further strengthen its presence in the LNG business, your Corporation has submitted a joint proposal in association with Petropars of Iran to the National Iranian Oil Company seeking allotment of a gas field in Iran for developing an integrated LNG project. The project envisages setting up of a liquefaction plant at the site and marketing rights for up to 9 million tonnes of LNG per annum.

Your Corporation is also focussing on developing gas-related infrastructure in India and to this end, its subsidiary, Chennai Petroleum Corporation, has planned to develop an LNG import terminal at Ennore, near Chennai.

City gas distribution is another growth area. Your Corporation is, therefore, actively pursuing projects that envisage distribution of natural gas to industries, domestic households and commercial establishments in select cities and towns. During the year, IndianOil entered into an MoU with GAIL.
(India) Ltd. for developing integrated gas distribution projects at Agra and Lucknow as a joint venture.

With the Government of India entrusting IndianOil with the task of laying the Dadri-Panipat gas pipeline, your Corporation will be setting up its maiden gas pipeline soon. Expertise gained in the new venture will equip us to pursue similar projects in future.

Globalisation

Your Corporation has been tapping new markets in the neighbouring countries for its products and services. Its two overseas subsidiaries, Lanka IOC Ltd. (LIOC) and IndianOil (Mauritius) Ltd. (IOML), went from strength to strength during the year, carving out a special place for themselves in the petroleum sector of Sri Lanka and Mauritius respectively.

LIOC now operates a network of 170 retail outlets in Sri Lanka and has captured 27% market share in the retail segment. Its sales turnover during the year was Sri Lankan Rs. 2,759 crore (equivalent to Indian Rs. 1,218 crore) with a net profit of Sri Lankan Rs. 233 crore (equivalent to Indian Rs. 103 crore). To broaden its activities, LIOC launched an IPO in Sri Lanka during the year, which was oversubscribed 11.6 times.

IOML has set up a range of marketing infrastructure in Mauritius, including a state-of-the-art terminal at Mer Rouge and several retail outlets. We now propose to double our existing investment profile there to about US$ 35 million in the coming months to add tankage capacity at the terminal, besides setting up a state-of-the-art laboratory for product testing. At present, all oil companies, including IOML, are sending such samples to South Africa. A modern laboratory will bring IOML additional revenue, besides speeding up the testing process.

During the year, bunkering facilities have also been completed in Mauritius and operations commenced. IOML has also joined a consortium of four existing multinational oil companies to operate aviation fueling facilities. During the very first year of its full operation (2004-05), the Company achieved a market share of 7%. IOML’s sales turnover was Mauritian Rs. 76 crore (equivalent to Indian Rs. 126 crore) with a net profit of Mauritian Rs. 0.59 crore (equivalent to Indian Rs. 0.92 crore).

During the year 2004-05, your Corporation exploited all available opportunities to evacuate surplus products through exports and maintain its refining margins. About 1.96 million tonnes of petroleum products were exported during the year.

IndianOil also achieved a 20% growth in lubricant exports during the year. Blending of SERVO lubricants in Dubai, which commenced last year, will open up new markets in the Middle East, besides export to Sri Lanka.

IndianOil's state-of-the-art terminal at Mer Rouge in Port Louis, Mauritius.
An MoU has been signed with Nepal Oil Corporation (NOC) for laying a product export pipeline between IndianOil’s Raxaul Depot and NOC’s Amlekhganj Depot through a joint venture company.

Your Corporation also signed an MoU with the Government of Edo State, Nigeria, in September 2004 for setting up a petroleum refinery and development of the hydrocarbon sector in the State.

**Petrochemicals**

As part of its forward integration strategy, your Corporation is implementing a master plan by co-locating petrochemical plants with its existing and proposed refineries to fast emerge as a leading petrochemicals player in the country.

Your Corporation took the first step in this direction by commissioning a LAB plant at Gujarat Refinery in August 2004. Despite intense competition in the domestic market, IndianOil secured nearly 30% share of LAB business in a short time. Export opportunities are also being explored.

Your Corporation is also implementing an integrated PX/PTA project at Panipat Refinery, to be mechanically completed by October 2005. Marketing activities for PTA have already been initiated and the response so far has been very encouraging.

Your Corporation is in an advanced stage of setting up a Naphtha Cracker and downstream polymer units at Panipat. Towards this, an MoU has been signed in June 2004 with the Government of Haryana, who are extending fiscal incentives and concessions for the project. The project is planned to be completed by 2007-08.

IndianOil has already proposed a refinery at Paradip on the east coast. It is now proposed to develop it into a refinery-cum-petrochemicals complex. Feasibility studies for finalising the configuration are currently underway.

**INTERNATIONAL TRADE**

To meet the country’s increased demand, your Corporation imported crude oil and finished products through a carefully selected, diversified mix of supply sources. Surplus finished products were, however, exported, resulting in foreign exchange earnings for the Company and the country.

<table>
<thead>
<tr>
<th></th>
<th>Quantity (Million Tonnes)</th>
<th>Value (Rs. in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Imports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>27.361</td>
<td>35886.14</td>
</tr>
<tr>
<td>Fuel Products</td>
<td>3.597</td>
<td>6774.80</td>
</tr>
<tr>
<td>Lube Base Oils/Additives</td>
<td>0.031</td>
<td>19.92</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel Products</td>
<td>1.96</td>
<td>3540.62</td>
</tr>
</tbody>
</table>

Your Corporation continued to adopt instruments of risk management in international trading, and derivatives trading to protect its refining margins. New term contracts, including swap contracts, were entered into to get the desired grades of crude oil. Long-term tenders were floated for sourcing crude oil at very competitive rates. The crude oil basket for IndianOil Group refineries was diversified with inclusion of seven new grades of crude oils. Enhanced use of very large and ultra large crude carriers resulted in substantial savings. Euro-II and Euro-III petrol and diesel parcels were imported at short notice to meet the country’s requirement of green fuels.
systems, procedures and practices are in place at all operating units and installations to take care of safety, occupational health and environmental hazards. Existing facilities are periodically audited and upgraded to maintain excellence. Environment management systems at the refineries, pipelines and major marketing installations are certified to ISO-14001 standards.

Your Corporation’s emphasis on quality assurance has made it a market leader for testing of petroleum products through its countrywide network of testing facilities.

ENERGY CONSERVATION

Your Corporation continued to maintain its thrust on energy conservation at all its operating refineries through continuous in-house process and technology improvements. Various energy conservation measures undertaken during the year have brought down the energy index of IndianOil refineries to 109 as against 111 in the previous year. Similarly, energy conservation schemes implemented during the year resulted in fuel savings to the tune of 30,000 million tonnes per year valued at Rs. 30.5 crore.

HUMAN RESOURCES

The Corporation’s employee strength as on 31st March 2005 was 30,430, including 10,667 officers. There are 2,361 women employees (including 763 officers), constituting 7.76% of the total manpower.

Industrial Relations

The industrial relations climate in the Corporation continued to remain harmonious, peaceful and cordial during the year. As part of continuous improvement in employee benefits, various work-related allowances were revised. A memorandum of settlement on work-related allowances was signed with the recognised workers’ unions during the year. The healthy bilateral relations with the collectives have helped in resolving several major issues like redeployment, optimisation of manpower and other productivity improvement measures including technological upgradation.

Significant participative initiatives like Total Productive Maintenance and Six Sigma have been launched at many locations of the Corporation by involving all personnel from top management to workmen.
The IndianOil Suggestion Scheme was modified and improved during the year, inviting suggestions even in the areas of corporate policies and service conditions.

**Human Resource Development**

Your Corporation strongly believes that the competence and commitment of its people are the key drivers of competitive advantage in the market place, enabling it to deliver unique value to customers. Towards this end, your Corporation has undertaken a comprehensive exercise of ‘role-goal’ alignment of IndianOilPeople right from the top, keeping in view new and emerging business needs. An international consultant in the HR domain was mandated to conduct Development Centres for management grades to strengthen leadership at senior levels.

Your Corporation embarked upon an ambitious project of e-enabling the Performance Management System during the year to strengthen the performance culture at all executive levels, making it more transparent and aligned to corporate goals. IndianOil lays great emphasis on growth and learning opportunities for all employees with best-in-class training and development resources led by its apex learning institution, the IndianOil Institute of Petroleum Management.

**Corporate Social Responsibility**

Every year, your Corporation earmarks substantial funds for donations, contributions and community welfare activities. During the year 2004-05, besides undertaking various community development programmes, your Corporation donated Rs. 15 crore to the Prime Minister’s Relief Fund for tsunami victims. In the wake of the tragedy, IndianOil teams...
not only maintained regular supplies in the affected areas but also provided quick relief services, working hand in hand with civil and defence authorities.

The IndianOil Foundation, a non-profit trust to protect, preserve and promote heritage monuments, unveiled the Swatantrya Jyot at the Cellular Jail National Memorial at Port Blair in 2004.

During the year, 350 meritorious students from economically weaker sections of society pursuing 10+, ITI and professional courses in Engineering, Medicine and Business Administration/Management disciplines were awarded IndianOil scholarships.

In compliance with the Official Language Act, 1963, Official Language Rules, 1976 and orders issued by the Government of India from time to time, efforts were continued for increasing the progressive use of Hindi in official work. Official Language Committees functioning at IndianOil units regularly reviewed the progress of implementation of Official Language policies and the annual programme as circulated by the Department of Official Language, Ministry of Home Affairs. Several IndianOil units received awards from the Department of Official Language during the year for progressive use of Hindi in official work.

**Presidential Directives regarding Representations of SCs and STs**

Your Corporation has been meticulously following the Presidential Directives and other guidelines issued by the Ministry of Petroleum & Natural Gas and the Department of Public Enterprises from time to time with regard to reservation in services for Scheduled Castes, Scheduled Tribes, etc. Officers dealing with the subject have been provided necessary training to enable them to update their knowledge on the subject and execute their job efficiently. Carefully chosen liaison officers have been appointed at various IndianOil units across the country to ensure implementation of Government directives.

In accordance with para-29 of the Draft Presidential Directive, a note about the Corporation’s activities which have direct relevance to the advancement of SC/ST category of employees along with the statistics relating to representation of SCs/STs in the prescribed proforma – SC/ST/OBC Report-I and SC/ST/OBC Report-II – is annexed.

**Status on Implementation of Disabilities Act, 1995**

Your Corporation has been diligently implementing the provision of 3% reservation for physically handicapped and disabled persons.

**Welfare of Other Weaker Sections**

Our endeavour to utilise 25% of community development funds towards Special Component Plan and Tribal Sub Plan, for meeting the needs of weaker sections, continued during the year.

**Sports**

Your Corporation continued its policy of nurturing budding talent in sports during the year and achieved considerable success when eight of its sportspersons represented the country in the Olympic Games held at Athens in August 2004. IndianOil executive and badminton ace P. Gopichand was conferred the Padma Shri Award during the year. He is the first to receive this honour at IndianOil. Devesh Chauhan, also of IndianOil, was conferred the prestigious Arjuna Award for his outstanding contribution to Indian hockey.

**Foreign Tours**

IndianOil officers undertook a total of 379 foreign tours during 2004-05 for business purposes and for attending conferences, seminars and training programmes. The total expenditure on foreign tours was Rs. 5.38 crore.

**VIGILANCE**

Your Corporation’s Vigilance wing had earned ISO 9001:2000 certification for quality assurance from
M/s DNV, The Netherlands, in March 2004. After auditing five vigilance units, including Corporate Office, during 2004-05, DNV approved continuation of the certification for the upgraded version of ISO 9001:2000. The Vigilance group organised a number of seminars and awareness programmes during the year for the benefit of the employees. A compendium of Government guidelines on vigilance matters, including circulars, was published and circulated among all units.

**REMUNERATION TO THE AUDITORS**

The Auditors’ remuneration for the year 2004-05 has been fixed at Rs. 37.50 lakh plus applicable service tax. In addition to this, reasonable out-of-pocket expenses actually incurred are also reimbursable.

**ENTERTAINMENT EXPENSES**

The entertainment expenses for the year 2004-05 were Rs. 26 lakh.

**SUBSIDIARIES**

**Indian Oil Blending Ltd.**

The Annual Accounts and Directors’ Report of Indian Oil Blending Ltd., a wholly-owned subsidiary of the Corporation, are annexed. The Company posted a loss of Rs. 4.87 crore for the year 2004-05.

**Bongaigaon Refinery & Petrochemicals Ltd.**

The Annual Accounts and Directors’ Report of Bongaigaon Refinery & Petrochemicals Ltd. are annexed. BRPL earned a net profit of Rs. 478 crore and declared a dividend of 120% for the year 2004-05.

**Chennai Petroleum Corporation Ltd.**

The Annual Accounts and Directors’ Report of Chennai Petroleum Corporation Ltd. are annexed. The Company earned a net profit of Rs. 597 crore and declared a dividend of 120% for the year 2004-05.

**IBP Co. Ltd.**

The Annual Accounts and Directors’ Report of IBP Co. Ltd. are annexed. The Company earned a net profit of Rs. 59 crore and declared a dividend of 100% for the year 2004-05.

**IndianOil (Mauritius) Ltd.**

The Annual Accounts and Directors’ Report of IndianOil (Mauritius) Ltd., a wholly-owned subsidiary of the Corporation, are annexed. The Company earned a profit of Mauritian Rs. 0.59 crore during the year, which is equivalent to Indian Rs. 0.92 crore.

**Lanka IOC Ltd.**

The Annual Accounts and Directors’ Report of Lanka IOC Ltd. are annexed. The Company earned
a net profit of Sri Lankan Rs. 233 crore during the year, which is equivalent to Indian Rs. 103 crore.  

**IndianOil Technologies Ltd.**

The Annual Accounts and Directors’ Report of IndianOil Technologies Ltd., a wholly-owned subsidiary of the Corporation, are annexed. The Company earned a net profit of Rs. 0.42 crore during the year 2004-05.  

**Indian Strategic Petroleum Reserves Ltd.**

The Company was incorporated in June 2004 and has not yet commenced business.  

**REPORT ON ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS**

In accordance with the Companies’ (Disclosure of Particulars in the report of Board of Directors) Rule, 1988, a report on Energy Conservation, Technology Absorption and Foreign Exchange earnings is annexed.  

**PARTICULARS OF EMPLOYEES**

The particulars of employees pursuant to Section 217(2A) of the Companies Act, 1956, and Rules framed thereunder are annexed.  

**BOARD OF DIRECTORS**

Shri M.S. Ramachandran, Chairman, superannuated from the services of the Corporation on 28th February 2005. Shri Sarthak Behuria was appointed as Chairman with effect from 1st March 2005.

Shri N.R. Raje, Director (R&D), superannuated from the services of the Corporation on 28th February 2005. Shri B.M. Bansal was appointed as Director (R&D) with effect from 1st March 2005.

Shri P. Sugavanam, Director (Finance), superannuated from the services of the Corporation on 30th June 2005. Shri S.V. Narasimhan was appointed as Director (Finance) with effect from 1st July 2005.

Shri P.K. Agarwal, Director (Human Resources), superannuated from the services of the Corporation on 31st July 2005. Shri V.C. Agrawal was appointed as Director (Human Resources) with effect from 1st August 2005.

Shri P.K. Sinha, Jt. Secretary & Financial Advisor, Ministry of Petroleum & Natural Gas, was appointed as a Director of IndianOil on 22nd December 2004.  

**DIRECTORS’ RESPONSIBILITY STATEMENT**

Pursuant to the requirement under the new Section 217(2AA) of the Companies Act, 1956, with respect to Directors’ Responsibility Statement, it is hereby confirmed:

(i) that in the preparation of the annual accounts for the financial year ended 31st March 2005, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(ii) that the Directors had selected such accounting policies and applied them consistently and made judgements and estimates that were reasonable and prudent 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 or loss of the Company for the year under review;

(iii) that the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
(iv) that the Directors had prepared the accounts for the financial year ended 31st March 2005 on a ‘going concern’ basis.

CAUTIONARY STATEMENT

Statements in the ‘Management’s Discussion & Analysis’ section (which forms part of the Annual Report) describing the Company’s focal objectives, expectations or anticipations may be forward looking within the meaning of applicable securities, laws and regulations. Actual results may differ materially from the expectations. Important factors that could influence the Company’s operations include global and domestic supply and demand conditions affecting selling prices of products, input availability and prices, changes in Government regulations/tax laws, economic developments within the country and factors such as litigation and industrial relations.

ACKNOWLEDGEMENTS

The Board of Directors conveys its sincere appreciation of the commitment and dedication of the members of the IndianOil family for the excellent performance of your Corporation. The Board also wishes to thank the Government of India, particularly the Ministry of Petroleum & Natural Gas, and the various State Governments for their valuable guidance and support.

The Board of Directors also wishes to place on record its appreciation of the significant contributions and valuable services rendered by Shri M.S. Ramachandran, Shri N.R. Raje, Shri P. Sugavanam and Shri P.K. Agarwal during their tenure on the Board of IndianOil.

For and on behalf of the Board

(S. BEHURIA)
Chairman