

Chairman's Message

The year 2010-11 was special for IndianOil, for it was during this year that the company regained its position as the nation's largest refiner. While our business went through a tumultuous and demanding phase during the year, to say the least, we were able to surmount the challenges and record a superlative performance. We witnessed an improved performance on all operational parameters – refining and pipeline throughputs rose and our sales went up. The year also saw the successful commissioning of some of our most ambitious projects; such as the expansion of Panipat refinery, fuel quality up-gradation facilities, besides the sustained expansion of our marketing and pipeline network. We were able to leverage our formidable supply chain to meet the challenge of making BS-III and IV compliant fuels available at the pump nozzle. Our efforts to build the petrochemicals business gained traction with logistics and channel partners firmly in place. We covered vital ground in the alternative energy business too. However, the year was also a test of perseverance as we continued to contend with tight margins at the pump nozzle while doing a tightrope act between fund raising and capital expenditure on projects.

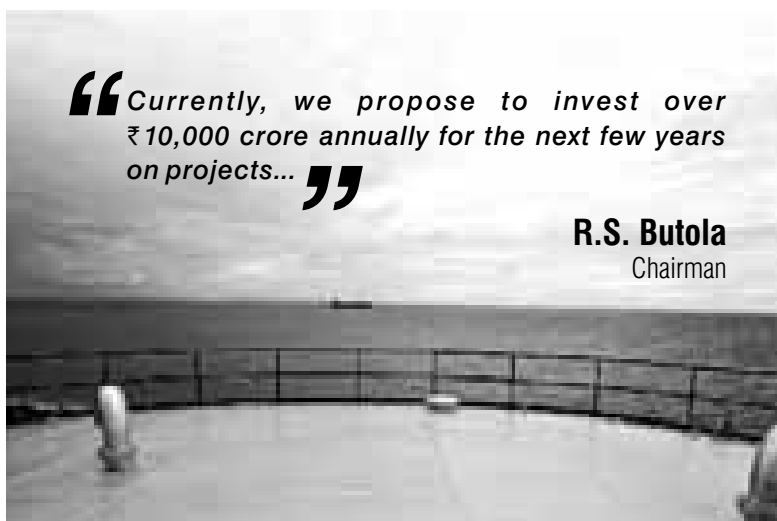
Globally, the year witnessed enhanced energy consumption driven by a strong economic recovery. High oil prices reshaped energy policy and the focus once again turned to ensuring oil security in the face of disruptions in some producing nations. Bio-fuels, Shale gas, Oil sands and other unconventional oil sources continued to receive added attention. Global natural gas consumption grew at a record 7.4% in 2010 with the United States moving to Shale gas. India witnessed a boost in domestic gas availability led by the KG basin output, before it began to slide by the end of the year. With the economy showing positive signs, we continued to remain the second fastest growing economy in the world. However, our energy landscape is still dominated by Coal, which accounts for 42% of energy use and that perhaps will continue to be the case. While there is a realization that we need to increase the share of clean energy like gas as the fuel of choice, the availability, especially of LNG, is yet to unfold fully in the face of global price levels and affordability of prices in the country.

Despite the growth of gas and possibly alternative energy options, liquid fuels will continue to dominate as the fuel that will drive the growth of the nation. Hence, we have to invest and the oil industry has to generate a justifiable return on investments in terms of robust profits. This calls for constant



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efforts to improve our secondary processing capacity to generate value out of the bottom of the barrel.

The volatility of high oil prices is a phenomenon that would make us look back in nostalgia to a time when there was at least a range bound movement. Till 2005, we could plan for our future considering this range. Then the price shot up on speculation before falling and rising again. The unwritten rule in crude oil prices currently is that there is no rule! We cannot predict crude oil prices, as it remains high in the absence of any extraordinary demand and supply factors. There are other factors too like the relationship between the currency and the commodities market.

For us in India, the gap between the domestic prices of Diesel and SKO and international prices has been widening. While MS prices were deregulated in June 2010, we still carry large under recoveries on other products. The Government does provide compensation by way of reimbursement of the under recoveries, but till the time the compensation comes, which normally is after a considerable time gap, we borrow from the market adding to our financial stress. The Company is sitting on high borrowings and a skewed debt-equity ratio. However, there was renewed optimism as the industry saw some duty re-structuring by the Government, a slight increase in prices of sensitive products and an indication of a gradual shift in the policy from the present system of indirect subsidies to direct subsidies.

True, the choices are limited for a nation with millions still below the poverty line, with a large segment depending on kerosene, diesel and LPG. However, if crude prices continue to surge and are not passed on to the consumer, it will certainly impact growth and inflation is bound to increase, whether we pass the increase or not. Our



endeavour would therefore be, to continue the dialogue on the issue with various stakeholders, on the imperatives of passing on the high crude prices off from the Refining and Marketing Companies.

As a National Champion, IndianOil has been relentless in its pursuit of excellence. A value that will continue to drive us. Technology has played a crucial role in our growth too. The best of technologies are those which have simple and lasting benefits and make a difference in the daily lives of our customers. Throughout our existence as India's premier energy brand, we have always tapped technology as an enabler. Our reputation as a committed provider of energy has stood us in good stead. And even today, this philosophy permeates in our core thinking and processes. The Paradip Refinery project is the biggest project under implementation by IndianOil. The project has been planned as a coastal refinery and should give us many strategic advantages, from sourcing and processing cheaper crude to providing us with an ability to export products, in the likelihood of a surplus in petroleum products in the country.

Currently, we propose to invest over ₹ 10,000 crore annually for the next few years on projects. Right now, the focus is to develop expertise in new areas. Nuclear power is one such area and we would also like to expand our presence in the gas sector too. Our LNG plans at Ennore are underway, while in petrochemicals we are trying to get into high value specialty and niche chemicals to add to our profitability.

I believe that for a corporate like IndianOil it is necessary to win the admiration of its stakeholders, not only through its highly ethical and environmentally sustainable business practices, but also through its valued contribution to the society and the community. Constant growth is the basic driver behind our business philosophy as a corporate and we need to generate the greatest value to our business and our stakeholders. I am happy to state that we are aware of these expectations and are responding in the manner expected of us. It is time to focus our energies on accelerating smoothly into the next phase of growth. I want to thank our customers and shareholders for their understanding and welcome their continued support as we move towards a brighter future.

R.S. Butola
Chairman