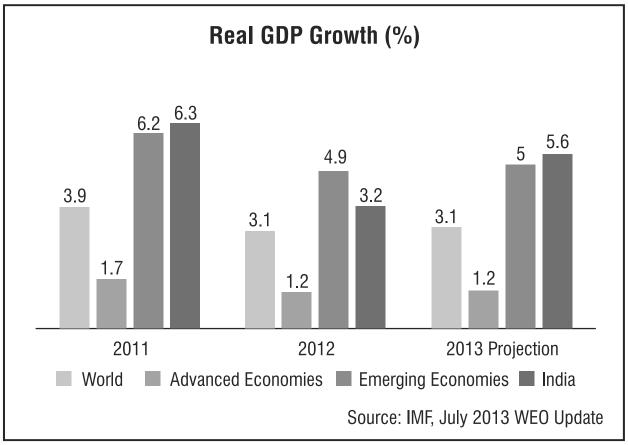
MANAGEMENT DISCUSSION & ANALYSIS

ECONOMIC OVERVIEW & OUTLOOK

Global

During the year, the overall global activity was subdued. Global economic growth decelerated to 3.1% in 2012 from 3.9% recorded in 2011.



The situation in advanced economies was mixed, while US and Japan experienced acceleration in growth of output, albeit meagre, the EU witnessed a decline in output by an estimated 0.6%. Unemployment rate in EU continued to be high and rose to 10.5% while in the US, there was a rebound in job creation with unemployment rate falling to 8.1% from 9% in 2011. Risks of a financial shock from the EU Sovereign Debt Crisis and a fiscal shock from the US 'fiscal cliff' were imminent during the year. Fortunately, these risks were contained with the last minute resolution in the US and the large-scale rescue efforts by EU Authorities and IMF. As regards, emerging economies, broad-based deceleration was experienced for a second year in a row.

Looking ahead, consolidation is expected in the advanced economies and in the emerging economies the trend of deceleration is projected to be arrested. As per IMF, World output growth is forecasted to remain unchanged at 3.1% in 2013 and accelerate to 3.8% in 2014. During the first quarter of 2013, while growth in US & Japan accelerated, in EU output continued to contract. Moreover, many major Emerging Economies have underperformed on account of domestic issues and weak external demand. Matters such as the US fiscal issues, the EU periphery still being stuck in the crisis coupled with the weakening of growth in Core economies and the timing and pace of the anticipated unwinding of Quantitative Easing in the US need to be tackled pragmatically.

India

During the year, in the backdrop of a fragile external environment, structural weaknesses of the Indian economy accentuated, and resulted in dropping of the GDP growth rate to a decade low of 5%. Key macroeconomic indicators, like inflation and fiscal deficit remained elevated and current account deficit traversed beyond the comfort zone, considerably raising concerns about the country's macro-economic stability.

During the year, while the performance of the slump-hit investment and industry continued to be worrisome, the ambit of the slowdown enlarged, as it took in its grip consumption, services and exports sectors. Investment growth rate further slid to 1.7% from 4.4% in the previous year. Infrastructural bottlenecks suppressed investment, inadequate fuel supply linkages, especially for coal in case of power plants, delays in clearances (defence, environment, land), slow growth of government capital expenditure and high interest rates, all curtailed investment growth. By the end of the year, it is estimated, the country had 444 projects worth ₹ 3.98 trillion stalled. In such a scenario, FDI flows also took a hit by declining by 38% during the year. Power deficit has continued to be high at discomforting level of 8-9%. All these factors weighed down the performance of the industrial sector, with mining and manufacturing being the worst affected. In mining, output declined by 0.6% and manufacturing witnessed a tardy growth of 1.0%. In addition to this, services and private consumption expenditure which had been the bellwethers of the economy, also plummeted as consumer confidence dipped, inflation and interest rates remained elevated, and gave a major blow to the Indian growth story. The dip in Agricultural growth rate to 1.9% on account of inadequate monsoons acted as a further drag on the waning economic momentum.

On the external account, despite a weak Rupee, exports witnessed a decline of around 2% on account of the weak global demand. Imports, on the other hand, did not witness a similar decline. High oil, coal and gold imports were responsible for keeping the import bill perched high at around US$492 billion, rising by a notch 0.44% from the previous year and a resultant high trade deficit of the tune of 10% of GDP. The meagre performance on the invisible account, mainly due to the slump in global demand and high interest payments outgo (emanating from rising foreign borrowings driven by lower interest rates abroad), limited its cushioning effect and led to the Current Account Deficit (CAD) touching distressing level of 4.8% of GDP. Moreover, with CAD being largely financed by FII flows, and External Commercial Borrowings (ECBs) concerns about the vulnerability of India's external position have aggravated.

Inflation did show signs of moderation though it continued to be elevated. During the year, WPI inflation stood at 6% as compared to 8% in the previous year. Consumer Price Inflation continued to reign high led by food inflation. A positive development was the reining in of the non-food manufactured inflation. While this did give the monetary policy some headroom to go in for monetary easing during the year for invigorating growth, it has been limited and constrained by the still high overall inflation.

Fiscal deficit during the year provisionally estimated at 4.9% of GDP was lower than the Budget Estimate of 5.1% of GDP. But, admittedly it could have been worse but for steps taken by the Government to rein the deficit. A discomforting aspect of the fiscal situation was that the Revenue Deficit at 3.6% of GDP, exceeded the target of 3.4%, mainly on account of subsidy bill escalating to 2.5% of GDP way above the target of 2%.

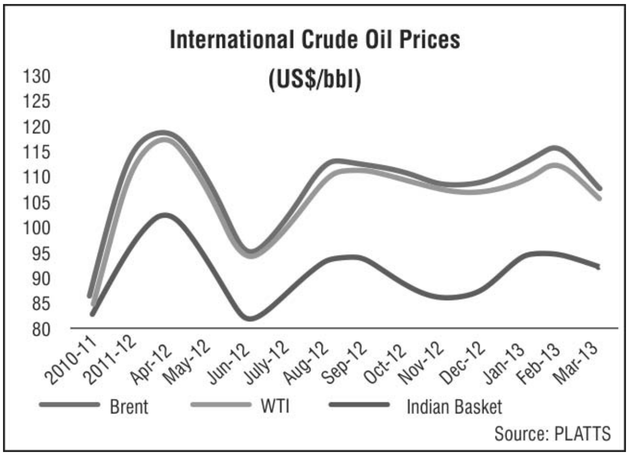
With the concerns becoming overbearing, remedial steps were taken by the Government. Setting up of the Cabinet Committee on Infrastructure (CCI) to monitor investment proposals and projects is one such development and in the recent months we have seen fast track action by CCI. On fiscal reforms, Government has been expressive by announcing a new path of fiscal consolidation. A slew of reform measures were initiated in the areas of foreign investment, fuel pricing etc. The progressive plan being made towards shifting from the inefficient system of indirect subsidies to direct cash through the UID is a welcome change. The weakening of global commodity prices being witnessed, along with good monsoon should positively impact the prospects of the economy. In this backdrop, acceleration in GDP growth in 2013-14 is being projected by various agencies. Proactive policy action, to tackle the sharp depreciation in Rupee being witnessed lately, and action in areas of infrastructure projects, energy pricing, controlling imports and fiscal consolidation remain critical to the prospects of the economy.

INDUSTRY STRUCTURE & DEVELOPMENTS

Oil Market-International

Prices

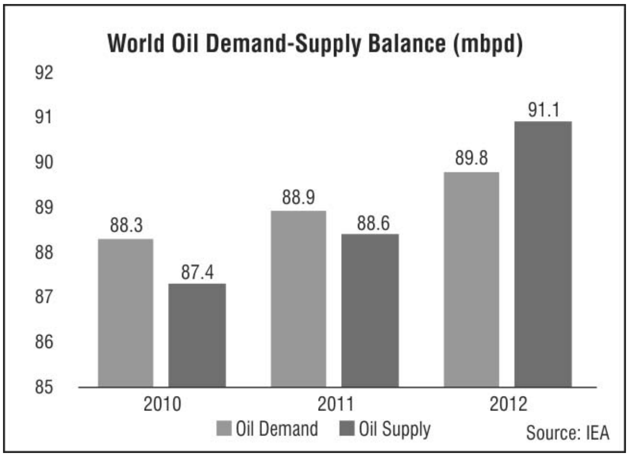
The year brought in some relief from the trend of rising crude oil prices. At the beginning of the year, Brent was above US$ 120/bbl, and at the end of the year it was below US$ 110/bbl level. Overall, the average price of crude oil fell from US$ 114.6 /bbl in 2011-12 to US$ 110.1 /bbl in 2012-13. Initially, the sluggish



global growth pushed the prices down to below US$ 90/bbl in June 2012. However in July 2012 onwards, geo-political risks started putting pressure on the prices. Further, the markets were flush with money as Central banks (FED, ECB) went in for further monetary easing. Crude Oil prices rose above US $ 115/bbl in February 2013. Since March 2013, weak global macroeconomic conditions have again started coming to bear and prices are projected to fall in 2013. Geo-political risks emanating from of political unrest in Syria, Egypt and potential supply outages in Venezuela, Nigeria and Iran could act against this projection.

Supply-Demand Balance

On the supply side, overall oil supply increased to 91.1 mbpd. Non-OPEC supply increased by 0.6 mbpd to 53.4 mbpd, on account of large-scale investments



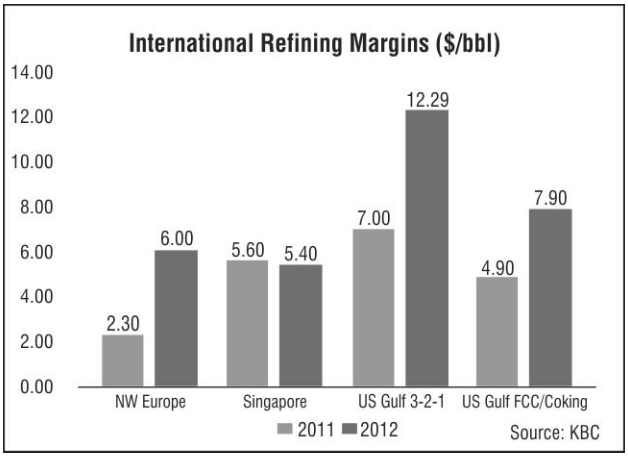
and entrenching of shale technologies to oil production in USA. Oil production in OPEC countries rose by 1.8 mbpd in 2012 to 37.6 mbpd led by increase in production by Libya, Iraq and Saudi Arabia.

World oil demand increased modestly by 1% to 89.8 mbpd in 2012, as compared to 88.9 mbpd in 2011. Oil consumption among OECD countries fell by 0.5mbpd to 45.98 mbpd. Non-OECD demand grew by 1.4 mbpd to 43.8 mbpd and accounted for almost half of global crude oil consumption and, all of the increase in global demand.

Oil production from countries outside the OPEC currently represents about 60 percent of world oil production. Key centers of non-OPEC production include North America, regions of the former Soviet Union, and the North Sea. Unconventional oil production in North America (Tight oil in the US & Oil Sands in Canada) is being viewed as a game changer that is set to shift the centre of gravity of the oil market from OPEC to North America. The IEA, projects the United States to become the world's largest oil producer overtaking Saudi Arabia by mid-2020s. Outside North America, Brazil and Kazakhstan are expected to bring in biggest increases in the Non-OPEC supply. On the demand front, Asia accounts for around half of the Non-OECD oil demand and is projected to experience the fastest regional demand growth over the long term. As demand in the OECD countries plateaus, in less than a decade Non-OECD demand is set to exceed the OECD demand. In the backdrop of these fundamental changes, the flow of world oil trade is set to shift from West to East.

Refining

During the year, global crude distillation capacity increased marginally by 0.26 mbpd to 92 mbpd following a 0.17 mbpd addition in 2011. Refinery closures in Western Europe and North America amounting to 1.6 mbpd largely



offset the 1.8 mbpd capacity additions of Asia. Looking ahead, major capacity additions are lined up in Middle East, Russia, India & China and in 2013 are likely to more than offset the decline due to closures, with a net capacity addition of 1.3 mbpd expected in 2013.

During 2012, refining margins improved in the European & US refining sectors, while the refinery margins on processing Dubai crude at Singapore fell marginally. In Europe & US, unplanned supply outages and closure of big refineries kept the market tight and margins up. Weaker crude prices also supported the refiners in the Altantic Basin. Looking ahead pressure on margins is expected as net capacity additions are likely to outpace demand growth.

Global refinery utilization rates have been coming down over the last decade with around 80% in 2012 as compared to 81% in 2011 and 86% in 2005. Weakening of the product demand growth post 2008 recession, rise in the global crude distillation capacity since 2009 and rising share of non refinery fuels from NGL, GTLS and biofuels are pulling down refinery utilization rates.

Long term challenges of the global refining industry centre around the need to adjust to the structural shift in the demand centre, to the changes in the mix of product demand and to the changing quality of crude feedstock. Investment in to hydrotreating, upgradation of capacity to produce greater proportion of cleaner fuels, to attune to heaveir crudes, and even polymerization and alkylation of capacity are called for over the long term.

Oil Market-Domestic-India

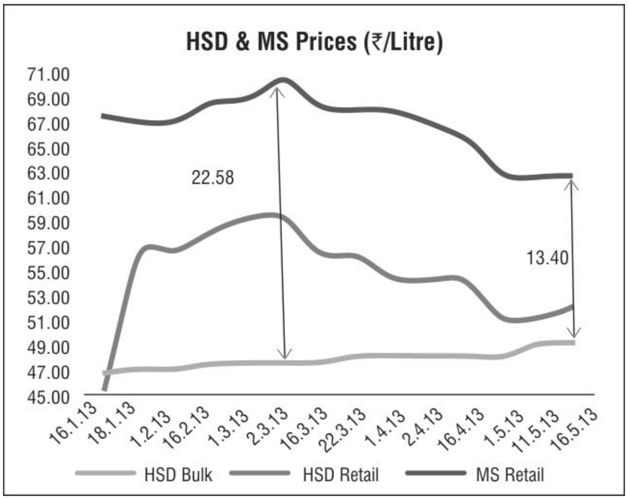
Domestic Demand

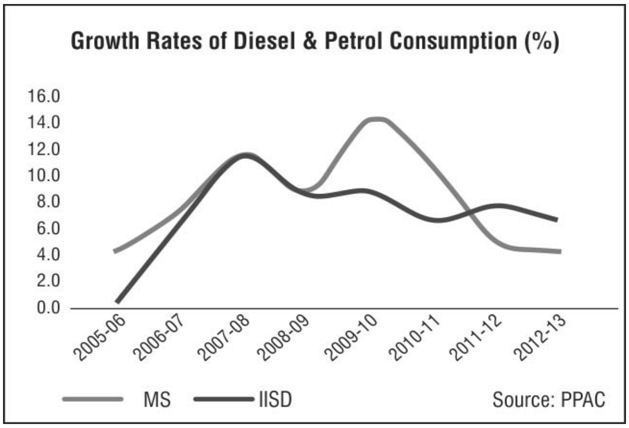
During the year, Petroleum products consumption (inclusive of imports) in India increased to 155.4 MMT, recording a robust growth of 4.9% on top of a 5% growth recorded in the previous year. While deceleration was witnessed in almost all product segments; HSD and MS (which account for more than 54% of the petroleum products) consumption experienced only mild deceleration and kept the overall growth rate strong.

During the year, major pricing policy reforms were rolled out. Dual pricing policy for bulk and retail diesel and capping of subsidised LPG cylinders were introduced in view of the growing imperative of fiscal consolidation, the need for reducing subsidy burden on petroleum products and relief to oil marketing companies. These reform measures are set to bring about decisive changes in the market.

Products with Mild Deceleration

- **High Speed Diesel:** During the year, HSD consumption rose to over 69 MMT from 65 MMT in the previous year. Growth continued to be strong at 6.8%. HSD growth continued to be high and exceed MS growth. This trend was propelled by the conspicuous price gap between HSD and MS prices and the constrained power supply situation in the country. However, slowing economic momentum on one hand and price reforms by way of small doses of increases in HSD prices slowed the growth of HSD as compared to 7.8% growth recorded in 2011-12. Since July 2012, monthly growth rates have been decelerating and in February 2013 it turned negative. Price hikes since September 2012, deregulation of Bulk Diesel and in-principle approval to OMCs to increase the Retail Diesel prices by ₹ 0.40 to ₹ 0.50 per litre on monthly basis in January 2013, coupled with the consequent price hikes have narrowed the HSD & MS price gap. Historically growth in sale of diesel vehicles has been influenced by artificially low price of diesel. As the fuel prices get closer to international markets, demand for petrol and diesel will also become realistic and market driven. In addition to pricing, declining port traffic and sales of commercial vehicles also restrained HSD demand.





- **Motor Spirit:** During the year, MS consumption grew to 15.7 MMT. from 15 MMT in 2011-12. Growth in MS consumption decelerated to 5% from 5.6% in the previous year mainly on account of existence of the still wide gap between HSD & MS prices and the downturn in the domestic economic activity, which inter-alia hit the sales of passenger vehicles, which fell by 6.7% in 2012-13.

Products with High Deceleration

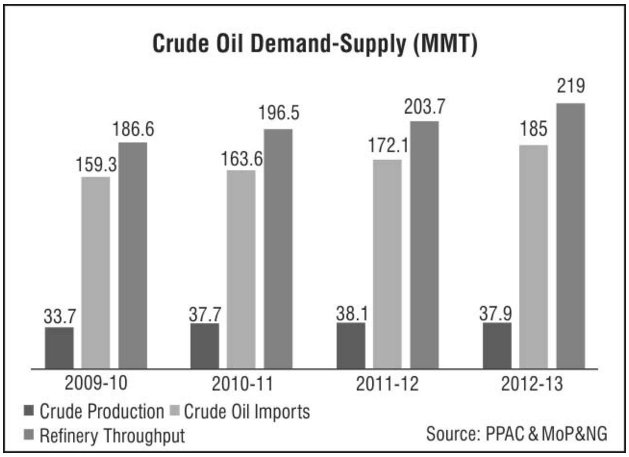
- **Liquefied Petroleum Gas:** After recording high growth rates for 3 years ending 2011-12, during the year, LPG sales recorded a tepid 1.6% growth. LPG sales marginally rose to at 15.6 MMT from 15.3 MMT in 2011-12. LPG growth has been marked by declining and even negative monthly growth rates since the policy for capping domestic cylinders took effect in September 2012. With the easing of capped cylinder number from 6 to 9 per annum in January 2013, based on the previous year consumption data, it is estimated that only about 10 percent of cylinders will be sold at a market prices.
- **Aviation Transportation Fuel:** ATF lost momentum, as its sales declined by 4.8% to 5.3 MMT from 5.5 MMT in 2011-12. As compared to this ATF sales recorded a growth of 9% in the previous year. A drastic fall in air passenger traffic by 3.7% on account of air fare hikes, global slowdown and curtailment in the flight operations of one of the big operators led to the plummeting of ATF Sales.
- **Bitumen:** Consumption of bitumen remained stagnant at the level of 4.7 MMT with a tepid 0.7% year-on-year growth from 4.6 MMT in 2011-12. Slowdown in the momentum of the road construction sector in the country on account of clearance hurdles was the key cause in the slump in Bitumen demand.

Products with Acceleration

- **Naphtha:** Naphtha sales grew to 12.3 MMT from 11.2 MMT in the previous year. Growth rate accelerated to 9.5% from 5.1% in the previous year mainly on account of robust demand from the petrochemicals sector.
- **Petcoke:** Sales rose to 9.1 MMT from 6.1 MMT in 2011-12, witnessing a remarkable growth of 48.5%. This was mainly on account of increase in domestic supply capacity of petcoke in the year that fed to meet the growing demand from cement and aluminium manufacturers.

Supply Side

The Domestic crude oil production scene continued to be restrained. Crude oil production at 37.9 MMT fell by 0.6% during 2012-13, following a minuscule 1% growth in 2011-12. Technical issues and underperformance of new development wells, among others weighed on the production.



In the backdrop of stagnant domestic production, growth of crude oil imports to the country continued to accelerate to cater to the growing domestic demand

and exports. India imported around 184.4 MMT of crude oil representing a rise of 7% on top of a 5% rise in the previous year. In value terms, crude imports amounted to USD 144 bn.

During the year, Indian Refineries processed 219 MMT of crude with over 100% capacity utilization. Throughput growth was impressive at 7%, accelerating from 4% growth recorded in the preceding year propelled by healthy domestic and export demand. During the year, product exports rose by 4% on year-on-year basis to 63 MMT. In line with the Government's road map to increase the number of cities with BS-IV norm fuels to 50 by 2015, Indian Refineries have been going in for quality upgradation projects. During the year, 10 more cities shifted to BS-IV fuels bringing the total to 30.

Refining construction in India continued to be upbeat during the year. Refining capacity increased to 215 MMTPA from 213 MMTPA at the beginning to the year. India has surplus refining capacity and is self-sufficient with regard to all major products except for LPG. Capacity additions are lined up over the next decade and by the end of the XIII Plan (2022), refining capacity is estimated to increase to 365 MMT. Capacity additions are being driven by growth of domestic demand and Asian demand-supply deficit. In fact, after China, India is set to witness the largest capacity additions. With refining capacity additions outpacing demand growth, at least till the XIII Plan period, India will continue to be a major exporter, and contribute to filling the supply gap created by increasing demand in Asia.

Financials

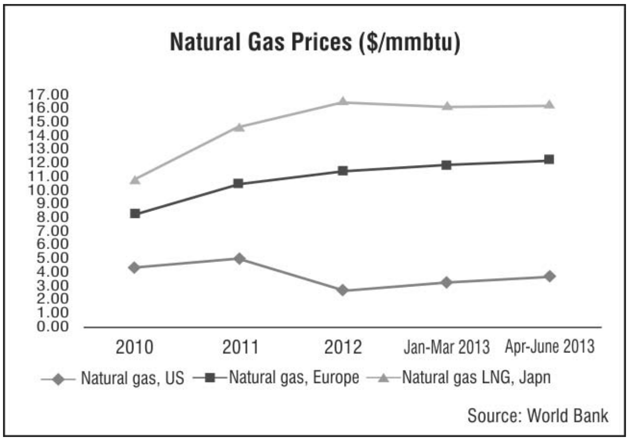
During the year, gross under-recoveries of the PSU oil marketing companies (OMCs) were to the tune of ₹ 1,61,029 crore of which 55% was on account of diesel. On the cost side, while Indian Crude Basket (ICB) price fell during the year on an average by 3.5%, the weakening of the Rupee by 6.7% meant that the decline in crude costs was eroded. On the revenue front, a number of steps in the form of policy action on capping Domestic LPG and hike in diesel prices made their contribution in restraining the under-recovery build-up. After accounting for compensation granted under the burden sharing mechanism of the Government, net under-recoveries stood at ₹ 1029 crore for the OMCs during the year.

Besides this, a number of factors weighed down the financials of the PSU OMCs. Foremost being the delay in compensation by the Government of the under-recoveries incurred, which forces OMCs to resort to borrowings for maintaining their cash flow. Growing borrowing levels along with the high interest rates in the country escalated the debt servicing burden of the OMCs and made a major dent on the financial health of OMCs.

Natural Gas Sector

International

In the US, the shale gas revolution continued to keep the supplies buoyant. After recording 7.9% growth in 2011, total marketed production of natural gas in the US grew by an estimated 5.7% in 2012. Natural gas prices in the US (Henry Hub) fell to an average of US$2.75/mmbtu in 2012 from US$5.08/mmbtu in 2011. On the other hand, the trend of rising natural gas prices elsewhere continued, with prices in Europe & JCC-LNG increasing to US$ 11.47/mmbtu and US$ 16.55/mmbtu in 2012 from US$10.52/mmbtu & US$14.66/mmbtu, respectively in 2012.



In addition to unconventional gas boon, large gas discoveries in East Africa (Mozambique, Tanzania and others) have come in as another boon for the market. The fillip in the global natural gas supplies have ushered in a boom in the LNG sector. Currently LNG accounts for about one-third of the global natural gas trade and by 2035, it is projected to account for more than 40% of the projected growth in inter-regional gas traded. Between 2012 and the end of 2015 more than 50 MMTPA (Million Metric Tonnes per Annum) of LNG export capacity is set to be added to the current global capacity of over 280MMTPA. Asia Pacific is today the largest market for LNG and Asian majors like Japan, China & India are set to drive global LNG demand. However, prices faced by Asian buyers are significantly higher than that of European Gas and of Henry Hub spot prices. JCC-LNG (oil-indexed) prices applicable to Asian buyers' long term contracts rose from US$14.66/mmbtu in 2011 to US$16.55/mmbtu in 2012. Asian buyers have increasingly been calling for move towards hub based pricing.

Domestic

At home, the downward trend in production of domestic gas led by the falling production in the KG Basin depressed the market. During the year, natural gas production declined to 112 mmscmd from 131.5 mmscmd in 2011-12. Further, the rate of decline accelerated to 14.5% from 8.9% in the previous year. Apart from resolution of technical issues, which have been limiting gas production, providing the right price incentives to the producers is stated to be one of the critical issues for scaling up of gas production in the country.

LNG imports rose to 10.9 MMT from 10.1 MMT in the previous year. Despite LNG imports, market remained supply constrained and consumption fell to 132 mmscmd from 154 mmscmd in the previous year. Looking ahead, capacity addition in existing and coming up of new LNG import terminals, increased utilisation of existing capacity and new short term contracts are expected to spur significant growth in LNG imports. IEA forecasts, India's LNG imports to increase by 72% by 2017 over their 2011 levels. However, affordability of LNG imports by Indian Industries has emerged as a major area of concern in the context of the rising LNG prices in Asia.

Key Policy Issues in Oil & Gas Sector

Development and performance of the Indian oil & gas sector depends critically on reform and policy action by the Government in some of the areas discussed below.

- **Direct Benefit Transfer Scheme:** The Government's Direct Benefit Transfer Scheme (DBTS) is seen as a game-changer that presents a way out of the limitations and inefficiencies of present subsidy regime. According to IMF, the potential total savings at national level from direct cash transfer based on Unique Identification Number (Aadhaar) is estimated to be the tune of 0.5 percent of GDP in addition to the gains from the better targeting of spending on the poor.

  In June 2013, Government launched DBT for LPG in 18 districts. These districts are located across 8 States and 2 Union Territories. The road map envisages that LPG cylinders will be sold at non subsidised rate and the subsidy will be credited to the bank account of the customer after he/she draws cylinder.

- **Natural Gas Pricing:** The Government's policy of keeping low prices for domestically produced natural gas though addresses the woes of key consumers like fertilizers and power sectors, the producers do not find it to be adequately remunerative and thus the overall development of natural gas sector is affected in the country. During the year, Rangarajan Committee proposed a new pricing formula for gas. As per the formula, the average of the price of imported gas across sectors over a 12-month period and that of prices in the three major international gas trading hubs are to be taken to arrive at the price of the domestic gas. The price based on this formula will be more than current prices which domestic producers are getting in the country, but will still continue to be lower than the international spot price of LNG. Subsequently, Government has given its approval to this pricing formula, which will become applicable from April 2014.

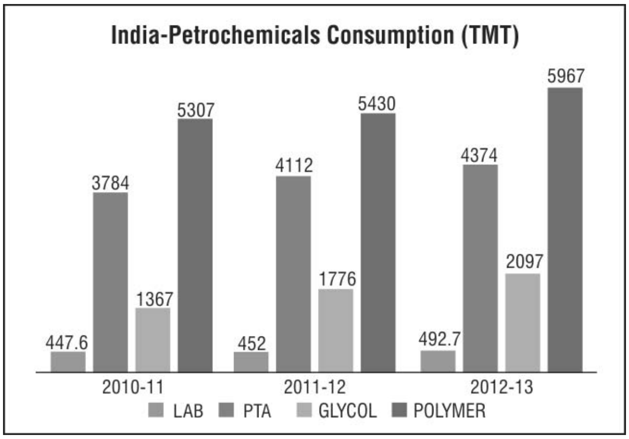
Petrochemicals Sector

During the year, global petrochemicals margins improved as demand remained stable & feedstock prices fell. In US especially, lower gas prices supported by the shale gas revolution have given fillip to profitability of North American Crackers.

The global polyethylene market has been witnessing structural shifts. On one hand, investments are getting increasingly concentrated in Middle East and the Asia Pacific which have low cost feedstock and high demand growth rates. On the other, in Western Europe there is trend towards consolidation, operations optimization, and moves toward the production of higher value, performance products. In North America the low cost shale gas has given a boost to the polyethylene (PE) business, making PE exports highly competitive, globally. Accordingly, several regional producers have announced capacity expansion through capacity additions and green-field projects.

As regards, the global Polypropylene(PP) market, China will continue to serve as the driving force, with growth rates estimated at over 7 percent per year for the next five years. The abundance of raw materials like propane in North America or coal in China is causing producers to turn into these materials as feedstocks for propylene production. However, in the interim PP products are likely to enjoy differential margins. Further, naphtha based cracker are likely to enjoy further advantage over ethane based producers in terms of value addition obtained from production of other molecules like Butadiene, Acrylates, Oxo-alcohols, etc.

The petrochemical industry in India is one of the fastest growing industries in the country. It plays an important role in the growth of the economy and the



country's development of the manufacturing industry; providing a foundation for manufacturing industries like construction, packaging, pharmaceuticals, agriculture, textiles, etc. With a per capita plastic consumption of 6-7 Kg as against 66 Kg in developed countries like the US, the industry has a huge untapped potential to be explored. The rapidly expanding domestic market and the availability of skilled manpower at competitive costs have been supporting high growth rates for the sector.

In 2012-13, overall petrochemicals demand in the country grew by 10% accelerating from 8% recorded in 2011-12. With domestic detergent industry growing by 5% the demand for LAB was buoyant and grew by 8%. A major chunk of the demand was met through low cost imports from Middle East as there continues to be a supply deficit in the country. PTA & MEG demand was propelled by increase in downstream Polyester capacity. A general shortfall in domestic availability was seen for most part of the year and would continue for some time till new capacities come on stream.

Polymer consumption grew by 10% in 2012-13, accelerating from 8% recorded in 2011-12, with good growth coming in from PP Raffia, PP Films, Molding and Blow Moulding sectors. Within Polymers, segments such as Pipes, and automotive grades witnessed sluggish demand on account of slow pace of activity in Infrastructure, Telecom and Automotive sectors. Supply outage during the second half of the year siphoned off a major chuck of domestic supply. Overall Polymer imports grew by 22% during 2012-13, wide fluctuations in global Polymer prices along with a depreciating and volatile Rupee affected domestic availability.

Looking ahead, overall demand of Polymers is expected to grow at double-digit rates riding on the initiatives taken by the Government to boost economic growth. Further, the relaxations announced in Jute Packaging Materials Act are expected to give sharp increase in PP & HD Raffia demand. Also, major infrastructure and telecom projects are likely to witness good growth bringing momentum to pipes, geotextiles and other plastic products. Policy support to entry of FDI in retail will bring significant increase in demand of various packaging films, mainly HM and BOPP films.

On the supply side, capacity additions between 2013 and 2017 are expected to add about 1.5 million metric tons of polypropylene and 2.2 million metric tons of polyethylene in the country. The resultant increase in supply is expected be absorbed significantly by the growing domestic demand. The recent increase in Customs duty applicable on Polymers from 5% to 7.5% is a welcome development for domestic suppliers and is expected to sustain net margins for producers.

India is fast emerging as a sourcing hub for the petrochemicals products for Indian sub-continent region. IndianOil has played an important role in integrating neighbouring markets viz. Nepal & Pakistan with the Indian economy becoming the leading supplier in both the markets and displacing the traditional Middle East/ South East Asian suppliers. IndianOil has taken a lead in diversifying the exports portfolio thus aligning with the various provisions of the India's Foreign Trade Policy 2009-14.

OPPORTUNITIES AND CHALLENGES

Core Business

Petroleum products, after coal are the largest source of meeting energy needs in India. Petroleum products are the mainstay of the Indian transportation sector, have a large market in the household sector, agriculture and industry as well.

Refining

Historically, the Corporation's Refineries have been set up at various vintages and as a result the refining capacities were expanded over a time period commensurate with prevailing market demand, availability of crude and product mix requirement in the region. Post deregulation of refining industry in the country, it was only pertinent for the oil companies to invest to make their refineries competitive for enabling them to sustain in the years to come. Across the globe, particularly in Japan and Europe, a lot of refineries have gone for closure in face of newer environmental/quality requirements due to their old process units as well as cost competitiveness with low capacity. On the other hand, the new refineries that are coming up have world scale capacity, higher complexity and higher operating efficiency thereby making competitiveness way above the older refineries. Accordingly, the Corporation has been expanding its existing refineries, wherever feasible, along with suitable upgrading units, based on techno-economic considerations and compliance to environmental norms to make them economically attractive in the years to come. Along with this, a major focus is on setting up new grass-root refineries with world scale capacity having higher complexity in Coastal location for processing opportunity crudes, maximising value added products, minimising crude import logistic cost and also making product movement cost effective. Presently, the Corporation is constructing a mega green-field coastal refinery project in Paradip, Odisha. The 15 MMTPA refinery is slated for commissioning in 2013-14, which with its state of the art design is set to boost up the overall performance indicators of the Corporation. For instance, processing of high sulphur crude will increase to 67% once Paradip Refinery is operational from 53.3% in the year 2012-13.

Imported crude oil forms a major raw material for the Corporation's refineries. The vagaries of the international crude oil prices coupled with the domestic price control leave only a little room where the Corporation can make a difference in face of the adversities of these exogenous factors. The Corporation is committed towards maximizing the benefits from areas under its control and choice. An important area in this context, is diversification of its crude basket and sourcing heavier and opportunity crudes with a view to improve margins. Presently, the share of opportunity crudes (Heavy & High TAN) is over 13%. The Corporation envisages to double this to over 26% once its Paradip Refinery is operational. Efforts are also on to upgrade the bottom of the barrel by introducing new residue upgradation technologies like setting up of Hydrocrackers, Delayed Cokers and revamping of Resid Fluid Catalytic Cracker (RFCCs) etc. Another thrust area is reduction in energy consumption and operating cost in the Corporation's refineries and other locations. It is noteworthy that there has been sustained improvement in the energy conservation management at refineries.

Marketing

The Corporation has established its position as the market leader in the downstream petroleum sector of the country. Delivery of quality products and quality services is the overarching objective of the Corporation. Its pan India sales network continues to be its major strength. The year witnessed significant changes in the policy domain, which are set to bring about structural changes in the petroleum products market in the country. This new paradigm will be defined by high levels of Competition as the retail market opens up to the dynamics of market forces.

The Corporation's strategy for maintaining its leadership in the retail business rests on the two Cs of Customer Loyalty & Cost Optimization.

Customer loyalty is directly dependent on the quality of goods and services that the Corporation provides. Automation, modernization of the dispensing units, improving Retail Visual Identities of retail outlets and imparting training to dealers and pump attendants are key determinants of the customer experience which overtime converts into customer loyalty. The Corporation leads the industry with a total of 4377 ROs having been automated as of 31.03.2013. Better customer perception leading to customer loyalty and incremental sales which in turn increases the RO profitability and overall volume gains/ growth for the oil Company can be achieved by leveraging the aspect of RO automation. The Corporation has implemented GPS-based vehicle tracking system in all its 105 supply locations and this marks a major milestone towards providing quality fuel to the customers. Under the vehicle-tracking system tank trucks carrying fuel are fitted with the GPS enabled devices which help in tracking their movement to ensure that products supplied are not pilfered. Along with this in the growing market, replicating the customer loyalty rests on expansion of the network and delivery of quality services. In pursuit of this, the Corporation's retail expansion drive and emphasis on highest level of services at its Retail Outlets is a major focus area.

Cost optimisation in the context of marketing operations is critically dependent on the efficiency of its infrastructure. Given the large scale of its infrastructure, rationalization to avoid duplication, to use the most efficient option and to create new infrastructure wherever there are gaps has been an area of focus for quite some time now. The other thrust area in context of cost optimization is technology. The role of technology as a key enabler cannot be overemphasized. Automation of the entire distribution infrastructure by the Corporation is bringing productivity gains and cost reduction.

LPG is another market, which is set to witness fundamental changes. Initiatives to cut down subsidized LPG through capping of subsidized cylinders, along with Aadhar based direct cash transfers and consumer portability across companies are pivotal in transforming the market from being supply driven to a consumer driven market. The Corporation is gearing up to meet the challenges in the new market scenario by expanding and rationalizing its LPG infrastructure. At present a number of LPG pipeline projects are under implementation. Further, Corporation's JV Company has commissioned its LPG import terminal in Ennore during the year. A number of new initiatives have been taken to stream line the LPG distribution system and making it more transparent and customer centric with the help of IT enabled solutions such as Transparency Portal, Web Based Indsoft and Emergency Service Care, etc.

In the Consumer business segment the Corporation enjoys majority share in most of the products. The Government's target of scaling up the manufacturing base of the country and the upcoming industrial corridors present replete growth opportunities to the Corporation . The Corporation aims to tap this opportunity by further expanding and strengthening its relations with industrial buyers by providing quality products and services through an efficient infrastructure network.

The Corporation has a stronghold in the ATF market. It leads the market with an over 60% market share. While, presently, the overall situation for the market continues to be tough in view of the slowdown in the aviation business. In the future, the segment holds promising prospects in view of the various reform measures being introduced by the Government in the Civil Aviation Sector. The Corporation aims at garnering these opportunities by investing in infrastructure, product quality and services.

Lubes business is a special focus area for the Corporation. The Corporation's *SERVO* brand continues to be the overall market leader in the domestic Lubes market despite the market being highly dynamic & competitive with more than 30 established players. In the industrial segment, the Corporation through its specialized and customized offerings dominates over 40% of the market and aims at excelling further. While in the retail segment, despite stiff competition the Corporation has a sizeable share of the market and is a prominent player, it aims to establish itself as the number one player. During the year, the Corporation introduced a number of initiatives such as *SERVO* Marts, *SERVO* Boys, Reward Scheme for ROs, Special incentives for RO Managers and Pump attendants etc. to scale up Lube retail sales.

In view of the sizeable latent demand of rural markets, these are of special importance to the Corporation. Owing to their, peculiar consumption patterns as differentiated from the urban demand, the Corporation has adopted a no-frills- low throughput format for these markets through its KSKs for more than a decade now. The network of KSKs has been growing from strength to strength.During the year it reached the level of 5256, which constitutes about 24% of RO network. Rural Kisan Seva Kendras (KSK) have also shown higher growth than the regular ROs. Their Per Pump Throughput has increased steadily and significantly. Moreover, the rural market for LPG is also expanding with the Government's Rajiv Gandhi Gramin LPG Vitaran Yojana (RGGLVY), in which the Corporation is partnering in a big way. The Corporation has formulated and implemented expansion plans with in roads into rural markets through RGGLVs besides more regular distributorships closer to customers. With city demand for LPG expected to stabilize in the future with expansion of CGD, rural market presents a sizeable growth opportunity to the Corporation's LPG business.

In addition to the domestic market, the Corporation has presence in the overseas downstream petroleum sector. It's subsidiaries in Sri Lanka and Mauritius have sizeable presence in fuel retailing and terminal business in these countries, besides its subsidiary in Dubai markets and exports lubricants to countries in Middle East and Africa. The Corporation has been exploring opportunities for further entrenching its presence in newer growth markets by leveraging its vast experience in the Indian market.

Pipelines

The Corporation has the largest crude and product pipeline in the country. Its pipelines network is a major source of strength as it facilitates cost-effective and environment friendly transportation. Today, as the Corporation's refineries gear up to process more and more of heavier crudes, its crude pipeline will have to cater to carrying these heavier crudes. The Corporation during the year set up a crude blending facility in Vadinar and is augmenting the capacity of its 2 major pipelines to carry higher viscosity crude. There are plans to lay a heated pipeline for pumping neat Rajasthan crude to its refinery in Gujarat.

In the case of product pipelines, the challenge is to work out ways to enhance capacity utilization of our existing networks. LPG is an area where substantial expansion in the pipeline network is called for. LPG imports account for 30% of India's product imports and building a nation-wide LPG for bringing imported LPG and domestic LPG to the consuming centres is a special area of focus for the Corporation, which is expected to boost the efficiency of our supply chain significantly. Pipelines enjoy the inherent advantages of being safer, more reliable and environment friendly.

LPG positioning cost through pipelines is significantly cheaper as compared to road. The Corporation has identified prospective LPG pipelines. Presently, its Paradip Haldia Durgapur LPG pipeline project is under implementation.

Natural gas pipelines are increasingly emerging as a new opportunity for the Corporation. At present, gas pipelines capacity in the country is low at 334 mmscmd, with major infrastructure confined to the North & Western part of the country. Having built its strong hold in the petroleum pipelines, it is aiming to establish a significant position in the national natural gas grid. IOC in consortium with GSPL, BPCL and HPCL, is participating in setting up three gas pipelines from West and East to North.

Petrochemicals

The low per capita consumption of petrochemicals in the country coupled with the robust growth in consumption make petrochemicals business ripe with opportunities. Over the last decade the Corporation has established itself as the second largest domestic supplier and achieved customer support and loyalty.

The overall market for petrochemical is highly competitive with cheap imports also posing tough competition. Moreover, with capacity addition lined up, the competition is expected to get stiffer. In the backdrop of this, it is pertinent for the Corporation to scale up capacities in the existing segments and improve its profitability.

The Corporation plans to invest in projects worth ₹ 35000 crore during the XII & XIII Plan periods. A major thrust is to enter the import substitution market. The upcoming Butadiene Extraction Unit and the Styrene Butadiene Rubber (SBR) units at Panipat are steps in this direction. Corporation's SBR plant will be India's first capacity 120 KTA based on the potential Butadiene streams available at its Panipat Naphtha Cracker.

The market for polymers, in which the Corporation has ventured, is highly fragmented with many niche and specialized products. In this context the thrust is to enter niche & specialized markets. A major challenge for the Corporation is to keep identifying and working on potential molecules and streams. In order to improve the margin and reduce the cash cost of ethylene produced from of Naphtha cracker at Panipat, various projects based on Naphtha cracker streams have been envisaged to create value by utilization of every molecule. These projects are at various stages of study/ development. Further, the Corporation is planning and developing projects utilizing all the molecules avilable from Refinery i.e. Propylene, Petcoke, etc. in the form of various products i.e. Acetic Acid, Acrylates, Oxo-alcohols, cumene, phenol, etc. with the aim of entering into specialty segments.

Gas

The Corporation's gas business has been growing steadily and awaits taking on the next level as opportunities are replete. The Corporation envisages building its presence along the entire value chain of gas business in the country.

India's gas demand is projected to grow at a CAGR 4.2 percent in India during the period 2010-2035. However, the gas market in India is constrained by the domestic production. As per the Working Group on Petroleum & Natural Gas for XII Plan, by 2022, overall gas demand is expected to be 606 mmscmd which is way above the projected domestic production of 243 mmscmd. In this context, LNG imports to India are set to play a critical role in bridging the demand –supply gap in the country.

Presently, Eastern Coast of India does not have any LNG terminal and India has only a few domestic players in Gas business. The Corporation is setting up a 5 MMTPA LNG import terminal in Tamil Nadu that shall cater to starved market of southern India with large demand from industries, refineries and power utilities. With the coming up of Ennore LNG Terminal, it is estimated that the Corporation shall have 15% of country's LNG Terminal capacity by 2016-17 as per report of the Working Group on Petroleum & Natural Gas Sector for the 12th Five Year Plan. The Corporation proposes to expand its gas business and attain significant position in the gas market. The North American Shale bonanza has augured a new age of gas and increased gas sourcing opportunities manifolds.

Another focus area for the Corporation is City Gas Distribution (CGD). The Corporation has adopted a consortium approach and is partnering with other player to build CGD networks across the geographical areas identified by PNGRB, the regulatory authority. CGD segment is distinctive in regard to its demand being highly price inelastic and thereby in its capability to take even high imported LNG prices.

E&P

The global E&P scene has brightened over the last few years with the coming in of newer fuels and newer geographies. However, the upstream business is inherently risky and the volatile crude oil prices hovering consistently above US$100 per barrel have made acquisition of discovered/producing assets more challenging. The Corporation has been making concerted efforts to acquire producing/ near term producing/ under development/ discovered upstream assets overseas, either alone or in consortium. In line with this, it had acquired stake in Carabobo Project in Venezuela in 2010-11 and during the year two oil wells came into production. Further, in its most recent endeavour, IndianOil has acquired 10% working interest in producing shale oil condensate asset in USA along with Oil India Ltd. (OIL). It is the first unconventional hydrocarbon asset and its first producing asset in which a stake has been acquired. The Corporation is gaining valuable experience as an operator in its Cambay blocks and also from its producing assets where it has participating interest. The Corporation's journey in Exploration & Production is gaining strength step by step with a view to establishing itself as an operator as well as a global upstream player.

R&D

The Corporation places significant thrust on knowledge and research based growth. In context of the vagaries of the international crude oil prices and changing domestic pricing regime R&D is viewed as a key competitive advantage driver for the Corporation. Investment in proprietary research in lubricants, catalyst, refinery and pipelines operations, and product offerings is viewed as a thrust area for the Corporation. R&D for its new businesses, especially, petrochemicals and alternative energy is emerging a major focus area for the Corporation. An example of the fast pace with which IndianOil is pursuing these newer businesses was commissioning of the first integrated Lignocellulosic Biomass to ethanol pilot plant in India by R&D Centre of IndianOil with technological support from National Renewable Energy Laboratory (NREL) USA. Another breakthrough achieved was the successful demonstration trial for co-processing of 6.5% of Jatropha oil along with diesel feed in DHDT unit of Corporation's subsidiary CPCL's refinery. This process by using the existing refinery infrastructure fares way better in comparison to the biodiesel option.

Sustainability

The Corporation's understanding of sustainability is that of Enterprise Sustainability and is therefore for us an overall umbrella that encompasses all aspects of the Corporation's business. Mitigation actions, such as Rainwater Harvesting, organising Carbon Neutral events and Awareness Generation Programmes are becoming a regular feature in the Corporation. Through its new CSR initiatives such as the Sachal Swasthya Seva centred around its KSKs is synergizing the social & economic spheres of its operation. Further, the Corporation is expanding its green energy business portfolio. Today, the Corporation has built up generation capacities in the Solar & Wind spaces and plans to scale these up further and thereby integrating the economic and environment spheres of its business.

Human Resource

Human Resource is the key strength of any organization. Attracting and retaining the required talent is a continuing challenge for the Corporation. As Corporation's business in areas beyond its core expands it has been working towards diversification of its talent pool as well. Initiatives for bringing in greater transparency, fairness and equity for the employees in respect to their career paths are a thrust area for the Corporation. A major challenge that has emerged in the context of the changing business realities that are set to play in, as competition in the market increases is to equip, train, facilitate, motivate and rationalize its manpower. With deregulation, the market is set to become highly dynamic in all its dimensions. In this context, prompt decision making would be critical for tapping business opportunities and for ensuring this the Corporation intends to work towards rationalization of its operating structures and this in turn would induce greater efficiency levels.

RISKS & CONCERNS

Pricing Policies: At present the prices of Diesel (retail), PDS Kerosene and Domestic LPG are being regulated by Government i.e the selling prices are kept lower than their market level. The under recovery arising out of the difference in selling price and its market level, is compensated partly by way of discount on crude/products supplies by upstream Oil Companies and partly through Government subsidy. However, there is no established mechanism regarding quantum and timing of disbursement of such compensation which affects the financial health of the Corporation adversely. Consequently, the Government decisions on the compensation mechanism towards reimbursement of under-recoveries on the subsidised products which are not within the control of the Corporation, continue to be a critical area of concern.

High Debt level: The Corporation's rising debt and deteriorating debt-equity ratios are a serious area of the concern. The burden of under-recoveries and the time lag between incurrence of under-recoveries and cash compensation provided by Government, has been forcing the Corporation to increasingly resort to borrowings.

Geo-Politics & Speculative Activity: Geopolitical developments, instability in certain regions, and speculative activity in oil markets pose a major risk to the Corporation. During the year, political instability in Middle East continued to play a role in building risk premium in the price of crude.

Rupee Depreciation: The weakening of the Rupee against the Dollar during the year countered the benefits of the falling crude oil prices. Exchange rate movements continue to be a serious area of concern for the Corporation given its high and growing import dependency.

Statutory Clearances: The Corporation is undertaking projects worth thousands of crore across its business segments. A number of its projects have got delayed due to delay in receipt of statutory clearances resulting in cost and time overruns. This has substantial financial implications and is a major area of concern. Besides, local issues, protests and political unrest at a few sites have also been a cause of delay in some projects and continued to be an area of concern.

Safety & Security: For the Corporation's pan India refinery, marketing & pipeline infrastructure, safety and security is a priority concern at all times and at all locations. Given the hazardous nature of products handled, the Corporation is fully committed to compliance to all guidelines with respect to health, safety & environment. The unfortunate accident at its Hazira Terminal came as a major setback to the Corporation's safety efforts. The Corporation is committed to bridge all the gaps and is working towards institutionalizing safety as the first and foremost priority at all times.

FINANCIAL REVIEW

Turnover

The turnover of your Corporation (inclusive of excise duty) for the year 2012-13 was ₹ 4,14,909 crore as compared to ₹ 3,73,926 crore in the previous year. The total sale of products (including gas and petrochemicals) for 2012-13 was 76.24 MMT as against 75.66 MMT during 2011-12.

Profit Before Tax

The Corporation has earned a Profit Before Tax of ₹ 5,648 crore in 2012-13 as compared to ₹ 3,754 crore in 2011-12.

Provision for Taxation

An amount of ₹ 643 crore has been provided towards income tax for 2012-13 considering the applicable income tax rates as against ₹ (201) crore provided during 2011-12.

Profit After Tax

The Corporation has earned a Profit After Tax of ₹ 5,005 crore during the current financial year as compared to ₹ 3,955 crore in 2011-12.

Depreciation & Amortisation

Depreciation for the year 2012-13 was ₹ 5,201 crore as against ₹ 4,867 crore for the year 2011-12.

Finance Cost

Finance Cost of the Corporation for the current year was ₹ 6,409 crore as against ₹ 5,590 crore during 2011-12.

Borrowings

The borrowings of your Corporation were ₹ 80,894 crore as on March 31, 2013 as compared to ₹ 75,447 crore as on March 31, 2012. The Total Debt to Equity ratio as on 31st March, 2013 works out to 1.32:1 as against 1.30:1 as on 31st March, 2012 and the Long Term Debt to Equity ratio stands at 0.39:1 as on 31st March, 2013 as against 0.38:1 as on 31st March, 2012.

Capital Expenditure

Gross Fixed Assets (including Capital Works in Progress) increased from ₹ 1,12,871 crore as on 31.03.2012 to ₹ 1,23,113 crore as on 31.03.2013. In addition, capital advances for LSTK projects have also gone up from ₹ 8,082 crore in 2011-12 to ₹ 9,291 crore in 2012-13.

Investments

Investments as on 31st March, 2013 were ₹ 18,671 crore as compared to ₹ 18,678 crore as on 31st March, 2012. The decrease in investments during the year is mainly due to sale of Government of India Special Oil Bonds. The aggregate market value of quoted investments as on 31st March, 2013, i.e., investments made in ONGC Ltd., GAIL(India) Ltd., Oil India Ltd., Chennai Petroleum Corporation Ltd., Petronet LNG Ltd. and Lanka IOC Plc., is ₹ 25,395 crore (as against the acquisition price of ₹ 3,828 crore).

Earnings Per Share

Earnings Per Share works out to ₹ 20.61 for the current year as compared to ₹ 16.29 in the previous year.

Earnings in Foreign Currency

During the year, the Corporation earned ₹ 18,559 crore in foreign currency as against ₹ 19,811 crore in 2011-12, which is mainly on account of export of petroleum products.

SEGMENTWISE PERFORMANCE

(₹ in Crore)

	Sale of Petroleum Products	Sale of Petrochemicals	Other Businesses	Eliminations	Total
External Revenue	4,24,943	15,596	6,557	-	4,47,096
Inter Segment Revenue	10,114	40	5,092	(15,246)	-
Total Revenue	**4,35,057**	**15,636**	**11,649**	**(15,246)**	**4,47,096**
Operating Profit	9,553	530	(17)	-	10,066

Notes:

A. Segment Revenue comprises Turnover (Net of Excise Duties), Net Claim/(Surrender) of SSC, Subsidy & Grants received from Government of India and Other Operating Income.

B. Other Business segment of the Corporation comprises; Sale of Gas, Oil & Gas Exploration Activities, Explosives & Cryogenic Business and Wind Mill & Solar Power Generation.

INTERNAL CONTROL SYSTEMS

The Corporation has well-established internal control systems. However the growing business activities of the Corporation call for constant review of the efficacy of the internal control mechanism. Detailed Manuals and well documented policies on various aspects of business activities are already in place. Notwithstanding, the internal processes are continuously reviewed, strengthened and revision of policies and guidelines are constantly carried out to align with the changing needs. Taking forward the initiatives to revamp policies and procedures relating to procurement, the process of e-tendering has been initiated. The IT team continuously collaborates with various functions to provide solutions to the internal and external customers, and extend IT enabled services across the entire procurement-to-pay process. The Corporation has an independent Internal Audit Department headed by an Executive Director (below Board level), who reports to the Chairman. The Internal Audit Department has a mix of officers from finance and technical functions. The audit assignments are carried out as per the Annual Audit Programs approved by the Chairman and Audit Committee. The Internal Audit carries out extensive audits round the year covering each and every aspect of business activity so as to ensure accuracy, reliability and consistency of records, systems and procedures. The Statutory Auditors, during the process of financial audit, check the internal control efficacy. The significant observations, corrective actions and good practices suggested by Statutory and Internal Auditors are reviewed by the Management and Audit Committee (which comprises entirely of independent Directors) for appropriate implementation in order to strengthen the controls of various business processes. The Audit Committee reviews the recommendations and observations of the Internal Audit Department regularly.

HUMAN RESOURCES / INDUSTRIAL RELATIONS

The Corporation recognises the importance of human capital for the success of its business. The Corporation acquires the best talent in the country from leading institutes and universities. It has been working towards nurturing and retaining talent. Job rotation and inter-location transfers throughout the organisation facilitates planned development of careers and broaden outlook. In view of the rising competition in the domestic market, acquiring and retaining manpower is a challenge.

The industrial relations climate in the Corporation remained harmonious, peaceful and cordial during the year. Employees' Participation has been ensured through information sharing with employees regularly seeking their support, suggestions and co-operation. IndianOil continues to align its HR strategies with organisational strategies. The employee strength of IndianOil as on 31st March, 2013 was 34,084 including 14,981 officers.

Information regarding Corporate Social Responsibility, Environmental Protection & Conservation, Technological Conservation, Renewable Energy Developments, Foreign Exchange Conservation has been included in the Director's Report and Annexure thereto.

CAUTIONARY STATEMENT

Statements in the Management's Discussion & Analysis 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 demand and supply 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.

Diesel Selling Point at Veraval, Gujarat