

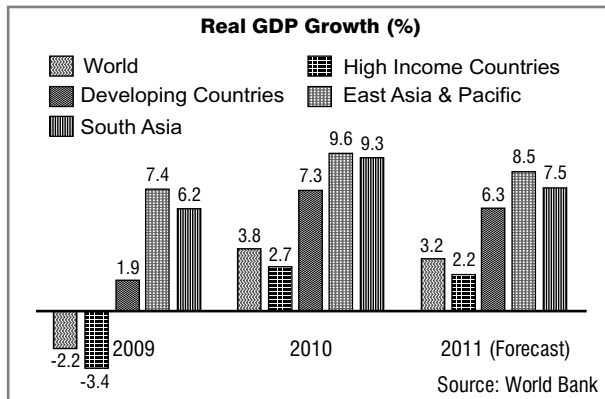
MANAGEMENT DISCUSSION & ANALYSIS

(Forming part of the Directors' Report for the year ended 31st March 2011)

ECONOMIC OVERVIEW & OUTLOOK

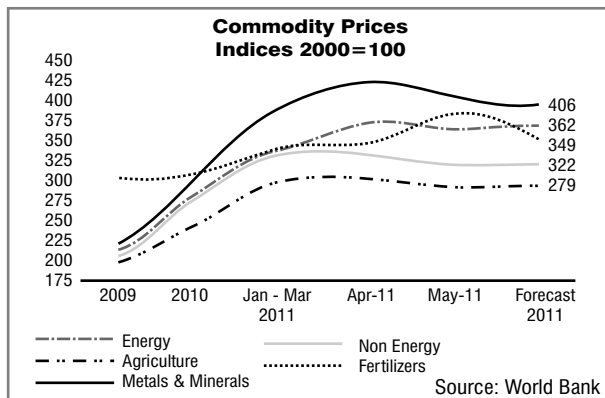
The return of Growth

The year was marked by a significant improvement in the overall global business environment, as growth returned to the advanced economies and accelerated in the emerging economies. India and other emerging economies registered high growth rates and have been the front runners in the recovery, particularly led by Asian emerging economies.



Key Downside Risks

The weak sovereign balance sheets in the Euro area and a fragile financial system in the advanced economies pose a risk to growth, with widespread repercussions across the world.



The rising crude oil prices and other commodity prices pose a major downside risk and rising inflation is one of the major threats, especially in India and other emerging economies. In fact, in the last few months, with a prominence of these risks, global economic activity has exhibited signs of a slowdown.

Growth Inflation Trade off

In India, the policy dilemmas increased as repeated attempts to rein in inflation failed. The successive rounds of monetary tightening will trade off growth for inflation control which assumed the priority of the monetary authorities. Interest rates continue to harden in the country as the monetary policy tightens. In the last quarter of 2010-11, GDP growth decelerated to 7.8% from 8.3% in the third quarter and from 9.4% in the corresponding quarter of 2009-10. While most agencies are in agreement that a slowdown is imminent, growth is still expected to be above 8% per annum in the next 2-3 years.

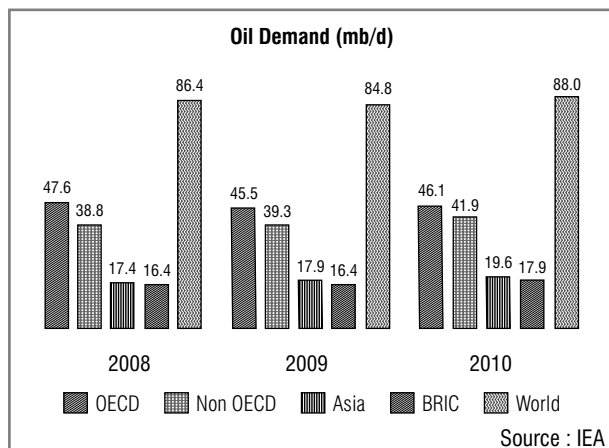
WPI inflation (2004-05 Base) % y-o-y growth	FY10	FY11
Overall	1.7	9.4
Primary	9.8	17.6
Food Articles	13.4	15.6
Non-Food Articles	2.1	21.8
Minerals	0.8	24.4
Fuel	-5.8	12.2
Petrol	-11.6	19.8
Diesel	-5.3	14.1
Manufactured Products	0.7	5.4

Source: Office of the Economic Advisor, Ministry of Finance

INDUSTRY STRUCTURE & DEVELOPMENTS

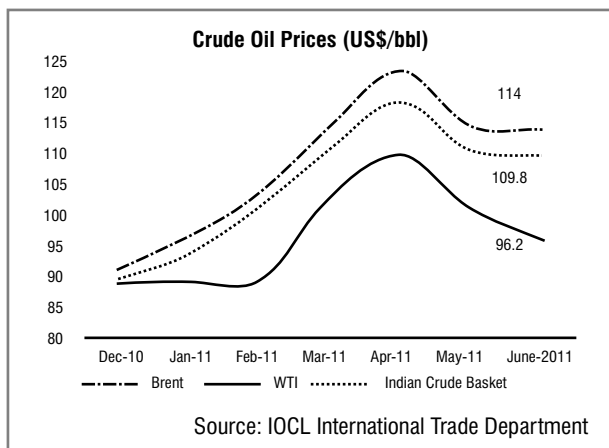
Rebound in Demand

Driven by economic recovery, global energy consumption recorded the strongest growth since 1973. In 2010, world oil consumption rebounded at around 88 million barrels per day exceeding its pre-crisis peak, growing by 3.3% on a year-on-year basis. While the growth was broad-based across OECD & Non-OECD country groups, it was the emerging economies, which led the demand. Oil consumption in the BRIC country group grew by 9.3% in 2010, with China leading the group at 12.5%. The supply side registered higher production, but the market remained tight as the rise in production did not fully match the rise in consumption, resulting in intermittent draw down of inventories and pressure on the prices. Towards the end of 2010-11, the upward movement of crude oil prices steepened as the political turmoil in Middle East & North Africa (MENA) region, accompanied by supply outages from Libya, hit the oil market.



Return of High crude oil prices

In less than two years, oil prices are back to the US\$100/bbl range and are again reshaping energy policy and business. With high oil prices, the focus is once again turning to Bio-fuels, Shale gas, Oil sands and other unconventional Oil sources and Renewables.



Buoyant Indian Transportation Fuel Market

Propelled by the continuing growth of the economy, petroleum products consumption grew by around 2.9 per cent during the year. It was the transportation fuels segment comprising MS, HSD & ATF that led the growth in consumption. The accelerated growth in demand for petrol, despite deregulation of prices during the year, highlights the capacity of the market to absorb higher prices. Industrial fuels witnessed a decline in demand mainly on account of substitution by natural gas. However, Naphtha recorded a robust growth due to naphtha feedstock based Petrochemicals units in the country. LPG recorded significant growth, helped by a policy thrust aimed at LPG penetration in rural areas through the Rajiv Gandhi Gramin LPG Vitaran Yojana (RGLVY).

PRODUCTS FY11	Quantity (MMT)	Growth (%)
LPG	14.3	9.1
MS	14.2	10.8
Naphtha	10.7	5.3
ATF	5.1	9.7
SKO	8.9	-4.0
HSD	60.0	6.6
LDO	0.5	-1.0
Lubes	2.5	-1.2
FO/LSHS	10.9	-6.5
Bitumen	4.6	-7.7
Total	141.8	2.9

Source: PPAC

Domestic Pricing Policies: Gradual Change

Price control is still applicable on three major products viz. HSD, SKO (PDS) & LPG(Dom). In this context, with the return of high crude oil prices, under-recoveries for PSU Oil Marketing Companies (OMCs) have continued to soar. However, there is a gradual shift in the Government policy from the present system of indirect subsidies to direct subsidies. The Government is considering direct subsidization of LPG & SKO through cash transfers. Should the policy change materialise, it may bring relief to the PSU OMCs from the financial burden of under-recoveries in the near future.

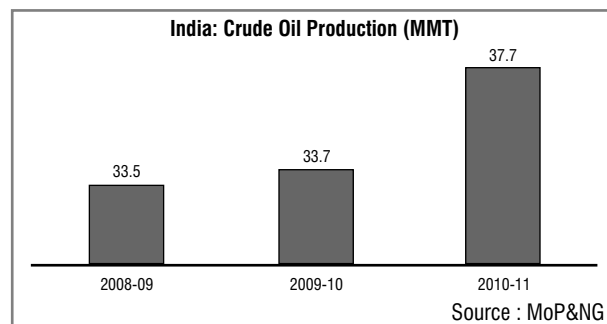
Strengthening of India as a Refined Products Exporter

With international oil demand rising during the year, the export market for Indian POL exports expanded further. POL exports from the country grew rapidly and have emerged as the highest foreign exchange earner for the country.

The Refining sector in the country has been growing at a fast pace and Indian refineries clocked a capacity utilization of over 100 per cent to meet the rising domestic and export demand. While, quite a few capacity expansions in the refinery sector came on stream during the year, other major expansions are underway. During the year, a landmark achievement was the successful countrywide launch of upgraded BS-IV (13 cities) and BS-III Petrol and Diesel (in rest of the country) in line with the Auto Fuel Policy road map.

Rising Domestic Oil Production

The country moved away from the scenario of stagnating domestic oil production.

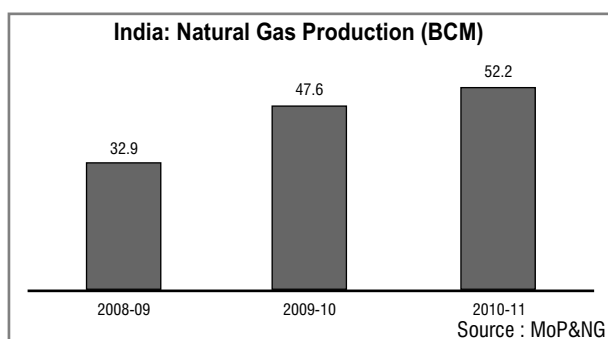
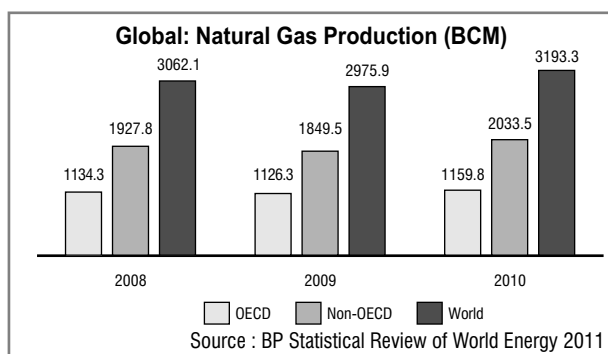


During the year, with new crude oil discoveries, production went up by 11.9 per cent to reach 37.7MMT during the year.

Growing Natural Gas Sector

Global natural gas consumption grew at a record 7.4% in 2010 and with shale gas coming on stream, the United States remained the largest producer of gas. This has considerably enhanced prospects for LNG imports for countries like India. Further, looking at the abundance of gas in the US, the conversion of LNG import facilities there into export points is also being seen as a possibility in the future, which would add to the buoyancy of the international gas market.

During the year, domestic production of Natural Gas in India rose by 10 % to 52.2 BCM. From the point of view of the long term supply scenario, two positive developments on the energy diplomacy front were India's signing of Inter-governmental Agreement and Gas Pipeline Framework Agreement for the Turkmenistan- Afghanistan-Pakistan-India (TAPI) pipeline and a MoU between US & India for technical co-operation in Shale gas.



OPPORTUNITIES AND CHALLENGES / STRENGTHS AND WEAKNESS

The Indian energy market is amongst the largest in the world. Further, the sector is expected to continue to grow at high rates, much above the developed world and global average in the long term. This growth will be largely propelled by the fast growth of the Indian economy, rapid rate of urbanization and the urgent need to supply energy to millions of Indians who are trapped in energy poverty. As a key

supplier in such a market, the Corporation foresees ample growth opportunities for itself, which are further enhanced by the increasing thrust of the policy initiatives for energy sector development. The Corporation's vision is to be the 'Energy of India'. Business strategies are focused on strengthening the core business, as petroleum products are and will constitute a major energy source. Along with this, the Corporation's focus area will be to expand its presence in other energy sectors to cater to the ever growing energy needs of the economy.

CORE BUSINESS

Growing Domestic Market

India's high economic growth has been driving up the demand for petroleum products. In times to come, competition levels are expected to rise in the domestic space and the Corporation would stand focused on strengthening its competitive edge by providing high quality services and products to its customers.

Rural Energy Deficit & Potential

Within the domestic market, the Corporation is also focusing on the rural market. The corporation's rural marketing model is based on low cost, no-frills retail outlets, named Kisan Seva Kendra (KSK) for providing fuel and non fuel rural-centric services. The renewed thrust of the Government towards providing basic energy needs to Below Poverty Line (BPL) families through schemes such as Rajiv Gandhi Gramin LPG Vitaran Yojana, in which the Corporation is partnering, gives further impetus to the efforts in reaching to the vast rural market.

International Downstream Marketing Opportunities

In the international petroleum product market, the Asia-Pacific Region has emerged as the leading growth centre for petroleum demand and is expected to turn into the largest importer of petroleum products in the near future. In addition, other emerging markets in the world are also experiencing rapid growth in petroleum product demand. The Corporation aims to explore opportunities presented by these fast growing demand centres through appropriate business models.

BUSINESS INTEGRATION

Downward Integration in Petrochemicals

The Corporation has made significant strides in the downward integration into petrochemicals business in the recent past. The strengthening of India's manufacturing base has resulted in a robust growth in petrochemicals demand. The Corporation, armed with its investments in petrochemicals, aims to garner the opportunities presented by the growing petrochemicals demand in the country besides the niche and high specialty chemical product markets. In addition to this, the Corporation also aims to enhance its petrochemicals exports.

Upward Integration into Exploration & Production

With the objective of enhancing the energy security of the country and the upward integration of its business, the Corporation has been in pursuit of tapping E&P opportunities through a consortium approach. Having built up a portfolio of blocks, both within and outside the country, the Corporation awaits a significant breakthrough.

BEYOND PETROLEUM

Growing Gas Supply Opportunities

The improved gas supply in the country and the limited gas infrastructure presents a considerable investment opportunity in gas transportation infrastructure. The construction of pipeline networks, both cross country and for city gas distribution, will provide an opportunity to the Corporation to serve value added propositions. The prospects of LNG imports to the country have turned positive in the last couple of years and the Corporation plans to expand its LNG business.

Alternative Energy Space

The Corporation's commitment to sustainable development has led to initiatives in renewable energy like Bio-fuels, Wind, Solar & Nuclear Power. Moreover, with high crude oil prices, the attractiveness of investment in these energy sources has increased considerably. A conducive policy environment under the Government's National Action on Climate Change, is seen as a major catalyst in making renewable energy investments attractive. In the domain of nuclear energy, the Japanese nuclear disaster came as a major setback. However, the nuclear renaissance in the country will continue albeit with an extraordinary thrust on safety and regulation and the Corporation is keen on garnering opportunities in this domain.

Research & Development

The Corporation has always valued the importance of research & development in the long term growth of its business and this is being widened to design strategies for development in newer areas. In the area of Product Development, the focus is on the development of environment friendly, emission compliant, energy efficient and long drain oils. During the year, the Corporation also created state-of-the-art R&D infrastructure for supporting petrochemical plant operations. In the alternative energy space, research work has been initiated in the area of second generation biofuels, co-processing of vegetable oils with refinery streams, algae oil and bio-hydrogen.

Sustainable Development

The Corporation appreciates the merits and the necessity of sustainable development and is committed to sustainable business practices. In the pursuit of 'Carbon Neutrality', six refineries of the Corporation have recently received the 'Greenhouse Gases Verification Statement'.

Further, in the context of Corporate Social Responsibility (CSR), which is an important dimension of sustainable development, the Corporation views it as an opportunity to create foundations for a sustainable business by integrating society & environment into our business practices. The Corporation intends to make its KSKs and its initiatives under RGGLVY as the nodal points of delivery for its CSR activities in rural areas in the area of healthcare for the really needy and poor sections of the society.

Widening Scope of MoU

Through its Memorandum of Understanding (MoU) with the Public Sector Undertakings, the Government of India has been bringing enhanced focus on issues critical for the long term well being of enterprises such as CSR activities, Research & Development, Sustainable Development, Human Resource Development and Corporate Governance. The corporation has already incorporated targets pertaining to these areas in its MoU with the Government. Thrust on these areas will go a long way in establishing a long term competitive edge to the Corporation.

Human Capital Challenge

Currently, to get quality HR Talent is a challenge. For the Corporation too nurturing and retaining the desired skilled workforce has been an area of focused attention. That 'an organization is as good as its people' is an old adage. It is a tribute to the spirit of IndianOil that it was adjudged as one of the 'Best Companies to Work for' in India by the Great Places to Work Institute.

Challenge of Policy Regime and High Prices

The deregulation of petrol prices in June 2010 came as a positive policy development. However, major products such as Diesel, LPG(Dom) & SKO(PDS) are still under price control. Although, there has been a shift from provision of oil bonds to cash compensation against under recoveries, the delay in compensation, coupled with rising international oil prices has led to very high levels of borrowings, causing stress and strain to the financial health of the Corporation. Albeit no one can predict oil prices and high crude oil prices are here to stay and this would be a continuing challenge for the Corporation. In the face of these external challenges, our constant endeavour is to further optimize our crude basket and turn higher value products besides improving productivity and reducing costs.

RISKS & CONCERNS

Supply Shocks

The geo-political risks have been inherent to the international oil market and this year saw this risk turn into a reality and is expected to remain high in the coming months.

Escalated Debt Levels

The Corporation's debt is at a significantly high level and with interest rates in the country hardening due to anti-inflationary policies, the debt servicing burden on the Corporation has been increasing and is an area of concern. As a risk mitigating strategy, the corporation has been increasing the share of foreign currency loans in its mix of borrowings.

High Domestic Inflation

In the context of high domestic inflation, the passing of high international crude prices to consumers in respect of sensitive products may become increasingly difficult for the Government. Should the inflation level in the economy remain high, it would act as a further deterrent in raising petroleum product prices. The Corporation would, however, continue to seek 100% reimbursement from the Government on account of under recoveries on sensitive products to insulate its position. The confluence of high domestic inflation and high international crude oil prices poses a considerable business challenge.

Forex Fluctuations

The Corporation engages in large scale foreign exchange transactions. In view of the instability of global capital flows, especially in the present economic environment, the Corporation has been using various cushioning strategies to limit the adversities of forex fluctuations resulting from volatile capital flows.

Safety & Security

For the corporation's refinery, marketing and pipeline infrastructure, safety and security is a priority concern at all times and at all locations.

The Corporation operates in a very dynamic and a very critical business sector, where both opportunities and risks abound. The Corporation reaffirms its commitment to make all endeavors for augmenting shareholder value, while exercising adequate caution to minimize risks.

FINANCIAL REVIEW

Turnover

The turnover of your Corporation (inclusive of excise duty) for the year 2010-11 was ₹ 3,28,744 crore as compared to ₹ 2,71,095 crore in the previous year, registering an increase of 21.3%. The total sales of products (including gas and petrochemicals) for 2010-11 was 72.92 MMT as against 69.92 MMT during 2009-10, registering an increase of 4.3%.

Profit Before Tax

The Corporation has earned a Profit Before Tax of ₹ 9,096 crore in 2010-11 as compared to ₹ 14,106 crore in 2009-10, registering a decrease of 35.5%.

Provision for Taxation

An amount of ₹ 1,651 crore has been provided towards income tax for 2010-11 considering the applicable income tax rates as against ₹ 3,885 crore provided during 2009-10.

Profit After Tax

The Corporation has earned a Profit After Tax of ₹ 7,445 crore during the current financial year as compared to ₹ 10,221 crore in 2009-10, registering a decrease of 27.2%.

Depreciation & Amortisation

Depreciation for the year 2010-11 was ₹ 4,567 crore as against ₹ 3,240 crore for the year 2009-10.

Interest (Net)

Net Interest Expenditure of the Corporation for the current year was ₹ 1,121 crore as against net interest income of ₹ 446 crore during 2009-10.

Borrowings

The borrowings of your Corporation were ₹ 52,734 crore as on March 31st, 2011 as compared to ₹ 44,566 crore as on March 31st, 2010. The Total Debt to Equity ratio as on 31st March, 2011 works out to 0.95:1 as against 0.88:1 as on 31st March, 2010 and the Long Term Debt to Equity ratio stands at 0.34:1 as on 31st March, 2011 as against 0.36:1 as on 31st March, 2010.

Capital Assets

Gross Fixed Assets (including Capital Works in Progress) increased from ₹ 93,358 crore as on 31.03.2010 to ₹ 1,05,785 crore as on 31.03.2011.

Investments

Investments as on 31st March, 2011 were ₹ 19,545 crore as compared to ₹ 22,370 crore as on 31st March, 2010. 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, 2011, 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 ₹ 25,141 crore (as against the acquisition price of ₹ 3,828 crore).

Net Current Assets

Net Current Assets stood at ₹ 24,008 crore as on March 31st, 2011 as against ₹ 14,637 crore as on March 31st, 2010.

Earnings Per Share

Earnings Per Share works out to ₹ 30.67 for the current year as compared to ₹ 42.10 in the previous year.

Earnings in Foreign Currency

During the year, the Corporation earned ₹ 16,968 crore in foreign currency as against ₹ 13,743 crore in 2009-10, 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	295,198	5,680	27,975	-	328,853
Inter Segment Revenue	4,632	67	1,186	(5,885)	-
Total Revenue	299,830	5,747	29,161	(5,885)	328,853
Operating Profit	11,325	1,706	(385)	-	9,234
Interest Expenditure					
Other Un-allocable Expenditure	-	-	-	-	2,670
(Net of Un-allocable Income)	-	-	-	-	(2,532)
Profit Before Tax	-	-	-	-	9,096

Notes:

- Segment Revenue comprises Turnover (Net of Excise Duties), Subsidy & Grants received from Government of India and Other Operating Income.
- Other Business segment of the Corporation comprises; Sale of Imported Crude Oil, Sale of Gas, Oil & Gas Exploration Activities, Explosives & Cryogenic Business and Wind Mill Power Generation.

INTERNAL CONTROL SYSTEMS

The Corporation has adequate internal control systems commensurate with the size and nature of its business. In addition, there are detailed manuals on various aspects of the business activities, accounting policies and guidelines. The Board of Directors regularly monitors the performance of your Corporation. Further, the Corporation has a full-fledged independent Internal Audit Department headed by an Executive Director (below Board level), who reports to the Chairman. 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. An Audit Committee comprising of independent Directors and constituted by the Board of Directors reviews the recommendations and observations of the Internal Audit Department regularly.

HUMAN RESOURCES / INDUSTRIAL RELATIONS

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. Employees' participation Schemes like shop floor councils and

plant level councils are functioning in the Units. IndianOil continues to align its HR strategies with organisational strategies. The pay revision for workmen effective 01.01.2007 has been implemented during the year. The employee strength of IndianOil as on 31st March, 2011 was 34,105 including 14,497 officers.

Information regarding Corporate Social Responsibility, Environmental Protection and Conservation, Technological Conservation, Renewable Energy Developments, and Foreign Exchange Conservation has been included in the Directors' 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.



Horizontal Directional Drilling - Concern for the Environment