MANAGEMENT DISCUSSION AND ANALYSIS REPORT

1. INTRODUCTION

ONGC Videsh Limited (OVL) is a wholly owned subsidiary of Oil and Natural Gas Corporation Limited (ONGC), a Central Public Sector Enterprise/Undertaking (CPSE/CPSU) of the Government of India, under the administrative control of the Ministry of Petroleum & Natural Gas (MoP&NG). OVL is engaged in exploration and production of oil and gas outside India. OVL was incorporated as Hydrocarbons India Private Limited, on March 5, 1965 with registered office in New Delhi to perform international exploration and production business. The Company was rechristened as ONGC Videsh Limited w.e.f. 15th June, 1989. With the widening of the energy supply gap from domestic production, participation in overseas oil and gas assets for equity oil was revived in the mid nineties. OVL participated in few exploration projects then, which could not bear desired results.

In January, 2000, OVL was granted special empowerment by the Government. The special empowerment facilitated better and smooth functioning of the Company in the international environment as evidenced by a string of successful acquisitions post January, 2000. OVL presently has participation either directly or through wholly owned subsidiaries/joint venture company in 40 E&P projects in 15 countries namely Vietnam (3 projects), Russia (2 projects), Sudan (3 projects), Iran (1 project), Iraq (1 project), Libya (3 projects), Myanmar (5 projects), Syria (2 projects), Egypt (2 projects), Cuba (2 projects), Nigeria Sao Tome Principe JDZ (1 project), Brazil (5 projects), Nigeria (2 projects), Colombia (6 projects), and Venezuela (2 projects) and is actively seeking more opportunities across the world. Out of 40 projects, OVL is operator in 17 projects and joint operator in 6 projects.

2. INDUSTRY STRUCTURE AND DEVELOPMENTS

The deep economic recession that had spread worldwide in the past year has taken a severe toll on global oil demand during 2009-10. The global oil demand continued to remain subdued during most of the current year. Sustained OPEC production cuts and improving economic prospects however resulted in upward movement of prices in 2009-10. Crude oil prices steadily rose from about USD 48/ bbl in April 2009 to about USD 80/ bbl in March 2010 and seem to have stabilized at the level of about USD 70 to 80/ bbl. This price band seems to be a resilient one from the point of view of both, producers as well as consumers. Crude oil demand however has not been uniformly distributed globally, with most advanced economies seeing anemic demand growth, or even declining demand. China, India and many other third world nations have seen growth in demand with the Asia-Pacific nations being the main focus for incremental demand growth. With projected demand likely to increase more than projected supply and with a sustained but gradual global economic recovery, it appears likely that crude oil prices would continue to remain robust for quite some time.

Global Upstream M&A activity began to pick up pace, increasing in volume quarter by quarter with improved access to funding and relative economic stability, therefore posting advantage of reduced valuations and less competition for opportunities. The oil and gas deals in 2009 totaled $153 billion and surpassed the pre-crash levels of 2007 (2008 data has visible impressions of the rise and fall of oil prices, while 2007 data is similar representation for comparison). Tracking on the deal count numbers of actual transactions above the $100 million mark, the picture however still seemed to be blurred with 124 deals in 2009 versus 160 in 2008 and 168 in 2007. The 2009 market saw new buyers and new assets, thus shifting market to a new paradigm and new asset types – namely unconventional oil and gas production primarily sourced from shale gas, tight gas sands and oil sands. This asset class garnered 45% of the market in 2009, up dramatically from just 9% in 2007. Africa continued to be a growing area of interest for buyers with its share of 14% in 2009 in global market growth. Hess and Shell's cross-border swap of North Sea and Gabon assets, valued at $2.9 billion, emerged as a unique example of portfolio management driving strategic and operational goal with both companies demonstrating persistence and flexibility through this transaction. On the buyer side, foreign National Oil Companies ("NOCs") and Government-backed entities represented 50% of all deals greater than $1 billion in 2009; also marking a shift to a new buyer profile in the oil and gas markets. The traditional major International Oil Companies ("IOC's") had limited activity, but when active the IOC's focused on unconventional assets.

During the year, OVL screened many opportunities and participated in the bidding rounds. The company has been successful in winning the award of Carabobo project in Venezuela in a consortium with other Indian and International companies. The Indian Consortium holds 18% PI (OVL 11%, IOC 3.5% and OIL 3.5%) with Repsol 11%, Petronas 11% and Corporación Venezolana del Petróleo (CVP), a subsidiary of Petróleos de Venezuela S.A. (PDVSA), Venezuela's state oil company, holding 60%.

2.1 International Industry Environment

Due to the depressed market conditions in 2008-09, it was expected that there may be a few mergers and acquisitions with cash rich companies taking advantage of low pricing. The year 2009-10 did witness some such large transactions with no let up in efforts by Majors and NOCs (mainly from China) to invest in new opportunities. The risk appetite of these companies has also increased with them venturing into new territories and also investing in unconventional oil and gas. The services market which had corrected from record highs has stabilized but they may still be in high ranges given the challenges of the industry. The recent BP oil spill in the Gulf of Mexico is expected to significantly alter the rules, especially for offshore activities. The costs are likely to increase significantly as all players and stakeholders in the oil chain seek to cushion themselves from downside risks. These two parallel events point to cooperation and consolidation among players, with consortia and Joint Ventures probably emerging as favored vehicles for international activities.

3. STRENGTH AND WEAKNESS

Your Company has now presence in 15 countries out of which 9 projects in 7 countries have oil and gas production. The well balanced array of portfolio provides immediate production from the producing projects and growth avenues from exploration assets upon success of exploration efforts. The company has also extended its reach to undertake integrated oil and gas projects like the Carabobo heavy oil production and up-gradation project in Venezuela.

A fair degree of risk mitigation has already been exercised by your Company by partnering with some of the leading oil and gas companies like Shell, Exxon, BP, Rosneft, TOTAL, ENI, Norsk Hydro, Repsol, TPOC, Petrobras, PDVSA, PetroVietnam, Rosneft, CNPC, Sinopec, Ecopetrol, Petronas etc. Your Company aims to sustain the exploration effort through allocation of its own internal resources except for high value but attractive projects.

Further, being a Public Sector Undertaking, there are some limitations for the Company, in terms of decision making process, attracting the best talent in the industry etc. The Company is pursuing with MOP&NG for enhancement of empowerment of its Board as the present empowerment is insufficient even for carrying out the minimum work program in an exploratory asset.

4. OPPORTUNITIES AND THREATS

OVL has been participating in opportunities for acquisition through various routes, like bidding rounds, direct negotiations, advised acquisitions etc. In the last few years, many countries like Libya, Nigeria, Vietnam, Syria, Yemen, Angola, Brazil, Iraq, Colombia, Venezuela have offered acreages through bidding rounds. Your Company has participated in nearly all of them and won a few. The Company expects good results out of the exploration prospects over the next couple of years. If proved successful in these ventures, the

Company shall be adding reserves through drill-bit thereby reducing its overall acquisition cost of reserves considerably.

The performance of the Company hinges on oil prices on the revenue side and factor cost of raw material, equipment, services etc. on the input side. High volatility in oil price and scarcity or high input costs of factor inputs could materially affect the performance of the Company. Though most of the projects are under production sharing contracts, the entitlement and cost oil recoveries may be altered by host Governments in attempt to net the windfall profits emerging from high oil prices.

5. OUTLOOK

Your Company has registered presence in various oil provinces of the world and continues to look for attractive assets. It has earned a high reputation for itself and therefore multiple opportunities keep coming for its consideration. Key priorities going forward include the following:

5.1 New Ventures:

The Company in last few years has adopted a balanced portfolio approach, by maintaining a combination of producing, discovered and exploration assets. While acquiring producing properties, enhanced emphasis is also being given to add to the company's reserves through exploratory efforts to contribute to production in future. OVL intends to maintain this trend and focus on all the three types of assets.

5.2 Exploration:

Your Company has set up a state-of-the-art data center and has constituted a knowledge team to scan and identify value in the existing exploration assets, assets with discovery and in new opportunities so as to enhance the reserve base of the Company.

5.3 International Alliances:

The Company has also forged alliances to attain a collaborative approach on value creation and knowledge sharing. The Company shall continue to engage more and more in such alliances through agreements and Joint Ventures.

5.4 Geographic spread:

The Company has presence in 15 countries and in some it has been able to enhance participation in more than one project. The Company shall endeavor to consolidate its position in the regions/countries where it is already present while making attempt to enter attractive acreages in other hydrocarbon rich countries/regions.

6. RISKS AND CONCERNS

The Company participates and operates in varied environments, both politically and geographically, where exploration, production and development is more challenging technologically, operationally and financially. While the strengthening of rupee gives comfort on purchase of assets, it adversely affects the earnings in rupee terms. In the projects and countries where your Company has large investments, the risks and losses due to expropriation, change in fiscal regime, additional taxes and increase in Government share or restrictions on exports of oil could materially affect the performance. However, due to prime importance of oil and gas industry in these countries, their Governments would not in their own interest like to destabilize the oil companies. Most of the international investments in the past had been in the form of joint ventures where your Company was not the operator. In the course of such investments, your Company was dependent to an extent on the operating partner, including for the success of the joint venture. The Company may sometime disagree with actions proposed to be taken by the operating partner. However, this is the format in which international E&P industry works to take care of sharing of exploration risks. Further, of late, the Company is acting as operator in several projects.

Some of the projects are in countries where there are unresolved unrests and larger issues of governance and territorial/ethnic divisions; some also have terrorism and reactionary protests on continued basis. Though your Company has not been the target, yet in future it may face the threat from these as closely as any one operating in such hostile environments. Further, the business involves high exploration and technology risks and there are inherent HSE risks in the oil & gas business.

7. INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has adequate internal audit and internal control systems to ensure that all transactions adhere to procedure and meet statutory requirements. The Company has already implemented SAP R/3 system for integration of various business processes. The internal control system consists of regular operative performance evaluation and devising corrective measures thereof and comprehensive internal and external audit including audit by C&AG. The Internal Auditors for the year 2009-10 M/s Deloitte Haskin and Sells, independently evaluated adequacy of internal control system. The audit observations are periodically reviewed by the Audit Committee and necessary directions are issued wherever required.

8. PHYSICAL PERFORMANCE

8.1 Reserve Accretion:

OVL share of total reserves (3P) of oil and oil equivalent gas as on 01.04.2010 was 398.236 MTOE. During the year, the Company had net accretion of 0.349 MTOE in ultimate reserves towards its share in the projects. The accretion of reserves has been reported from GNPOC project and Block 5A in Sudan, Sakhalin project in Russia and MECL project in Colombia. The ultimate reserve for Block A1 & A3, Myanmar; North Ramadan, Egypt; Block 06.1, Vietnam remains unchanged. There was a reduction in ultimate reserves in BC-10 project in Brazil, Imperial energy, Russia; PIVSA, Venezuela; and AFPC, Syria.

8.2 Production:

Crude oil production during the year was 6.513 MMT as against 6.556 MMT during the previous year. Gas production during the year was 2.357 BCM as against 2.220 BCM during the previous year. The detail of production during the last eight years is given below:

Particulars	**YE Mar'10**	**YE Mar'09**	**YE Mar'08**	**YE Mar'07**	**YE Mar'06**	**YE Mar'05**	**YE Mar'04**	**YE Mar'03**
Crude Oil (MMT)*	6.513	6.556	6.840	5.804	4.584	3.714	3.345	0.183
Gas (BCM)	2.357	2.220	1.962	2.148	1.755	1.349	0.523	0.070
Total (O+OEG) (MTOE)	**8.870**	**8.776**	**8.802**	**7.952**	**6.339**	**5.063**	**3.868**	**0.253**

* Including Condensate

9. FINANCIAL PERFORMANCE

Company's consolidated gross revenue was ₹ 153,828 million during 2009-10 as against ₹ 184,235 million during 2008-09. Company's consolidated net profit was ₹ 20,896 million during 2009-10 as against ₹ 28,067 million during 2008-09.

The Consolidated financial results of OVL, including wholly owned subsidiary companies viz. ONGBV (consolidated), ONL, OAAL (consolidated), Jarpeno Limited (consolidated), AB Startkapitalet nr 5636 (name changed to Carabobo one AB) (consolidated) and jointly controlled entity viz. OMEL (consolidated) for the year 2009-10 as compared to 2008-09 and the position of major items in the Consolidated Balance Sheet as at 31 Mar'10 and 31 Mar'09 is given below:

(₹ in Million)

Particulars	**YE Mar'10**	**YE Mar'09**	**Change**
INCOME			
Sales Revenue	150,989	180,642	-16.42%
Others	2,839	3,593	-20.98%
Total	**153,828**	**184,235**	**-16.50%**
EXPENDITURE			
Royalty	48,693	66,640	-26.93%
Operating Expenses	24,624	20,955	17.51%
Recouped Cost	36,513	30,619	19.25%
Interest & Exchange Loss and Provisions	4,539	12,356	-63.27%
Total	**114,369**	**130,570**	**-12.41%**
Profit Before Tax	39,459	53,665	-26.47%
Prior Period Adjustment	-582	103	-663.45%
Provision for Tax – Current Tax	19,509	26,228	-25.62%
- Deferred Tax	-619	-1197	-48.25%
Share of Profit – Minority Interest	255	464	-44.79%
Profit After Tax	**20,896**	**28,067**	**-25.55%**

(₹ in Million)

Particulars	**YE Mar'10**	**YE Mar'09**	**Change**
Sources of Funds			
Share Capital	10,000	10,000	-
Reserves and Surplus	106,449	105,156	1.23%
Minority Interest	-220	-45	387.84%
Loans: From ONGC	162,723	153,065	6.31%
From Others	44,260	53,725	-17.62%
Deferred Tax Liability	9,181	9,439	-2.74%
Liability for Abandonment	10,584	11,362	-6.85%
Total	**342,977**	**342,702**	**0.08%**

Application of Funds			
Fixed Assets (Net)	47,657	40,331	18.16%
Producing Property	108,843	91,400	19.08%
Expenditure on Wells in progress & Capital WIP	61,049	65,451	-6.73%
Goodwill	92,455	111,108	-16.79%
Current Assets (Net)	30,676	33,339	-7.99%
Deferred Tax Assets	2,297	1,071	114.44%
Total	**342,977**	**342,702**	**0.08%**

Important Ratios

	2009-10	2008-09
Net Profit to Revenue (%)	13.58	15.23
Net Profit to Capital Employed (%)	07.77	10.60
Net Profit to Net Worth (%)	17.94	24.37
Debt Equity	1.78:1	1.80:1
EPS (₹)	208.96	280.67

10. HUMAN RESOURCES / INDUSTRIAL RELATIONS

The Company follows the HR policies of its parent company ONGC. However, being international operator, the Company provides necessary training / conducts development programmes to imbibe the necessary skills required to operate in the international environment. Further, the Company deputes its personnel along with other international experts, in joint venture projects with major oil and gas companies which enable them to upgrade their skills in terms of new technologies, working in international environment etc. The Company has been operating with optimally required manpower provided by the parent company. The total manpower of the Company was 231 as on 31st March, 2010 as compared to 196 as on 31st March, 2009. As on 31st March, 2010, 69 executives stood posted to various overseas projects/offices.

11. ENVIRONMENT

As per HSE policy of the Company, it is committed to maintain highest standards of Occupational Health, Safety and Environment protection and comply with all applicable Laws & requirements. The Company conducts its business in a manner that is compatible with the environmental and economic needs of the societies in which it operates. In the projects operated by the Company, it complies with all applicable environmental laws and regulations.

The major non-operated projects, in which OVL is a partner, are operated by global companies like Exxon Mobil, Shell etc. who maintain very high HSE standards.

12. CORPORATE SOCIAL RESPONSIBILITY

The Company, being operating overseas, understands its responsibility to contribute to the communities and economies of the countries in which it operates. The Company is committed to create a positive and lasting social impact by developing successful partnerships built on mutual trust and respect, ultimately raising the standard of living and the stability of the communities of the countries in which the Company operates. The Company makes valuable contribution in many ways: through payment of tax revenues to governments; by investing in education and training and improving employment opportunities for nationals; providing medical/sports/agricultural facilities to the local community etc.

Further, with the objective to ensure access by any citizen to information under the control of the Company and in order to bring in transparency and accountability, an appropriate mechanism has been set up at registered office of the Company in New Delhi in line with the requirements of Right to Information Act, 2005.

13. CAUTIONARY STATEMENT

Statements in this management discussion and analysis may be 'forward looking' within the meaning of the applicable Laws and Regulations. Actual performance may deviate from the explicit or implicit expectations.