Explore. Evolve. Excel.

ओएनजीसी
ONGC

ANNUAL REPORT 2010-2011

The steady workhorse at ONGC Offshore : Jack-up Rig Sagar Kiran


EXPLORE.
EVOLVE.
EXCEL.

ONGC was formed in 1956 with the vision of great leaders to make our country energy-sufficient. Since then, the company has taken every step to fulfill this promise. Over the years, the company has discovered 6 of the 7 producing basins in India and added 6.4 billion tonnes of Oil and Gas reserves. Today, according to Platts Top 250 Global Energy Ranking, ONGC is the no. 1 E&P company in the world. The company is ready to touch new horizons of growth by resolutely focusing on its Oil & Gas production capabilities. ONGC aims to explore newer avenues for a greener planet, excel in its exploratory endeavors and evolve into a complete energy solution provider.

Chairman's Message

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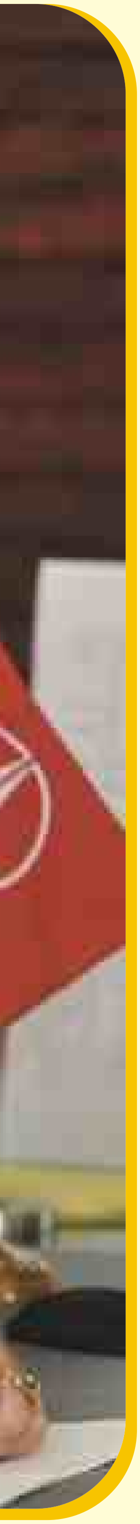

Dear Shareholders

The fiscal 2010-11 has been the year of achievements for your Company and it is indeed a privilege for me to share the same with you. First of all, your Company recorded highest-ever production (including the production share from its domestic joint ventures and the production of OVL) of 62.05 million tonne of oil and oil equivalent gas (MMTOE). Ultimate reserve accretion of 83.56 MMTOE in domestic operated fields has been the highest in last two decades. Your Company also made a significant breakthrough in Shale gas exploration.

Your Company made highest ever Net Profit of ₹189,240 million despite sharing ₹ 248,924 million as under recoveries of the Oil Marketing Companies as per the government directives towards subsidizing petroleum products i.e., HSD, LPG and SKO. Net Worth of your Company increased to ₹ 967,084 million; up by 6.6% over the last year. The aggregate dividend for FY'11 at ₹ 35 per share has been 20% more than the last year and the highest-ever dividend in absolute terms.

In recent times, the emerging economies particularly in Asia Pacific region, led by China and India, emerged as the largest energy consuming centres in the world. India is now the fourth largest energy consumer after China, USA and Japan.

Energy demand pressure is building up and it will be only intense in the future. However, supply side remains challenged; particularly for crude oil which accounts for largest slice (38%) in the global energy basket. Industry expects that it may be able to maintain demand supply balance with increased level of production from non-conventional oil, probably by 2050.

The uncertainties in the oil industry due to ongoing turmoil in the Middle East and North African (MENA) region continues to bring unprecedented volatility in the industry; especially throwing the crude oil prices in the range of US$ 100-125 per bbl. In such high price regime, the growth momentum of the oil import dependent economies like India have taken a heavy toll. If the same scenario continues, Indian economy may be severely impacted.

The average crude oil price for Indian basket during FY'11 has been US$ 85.09 per barrel; 22% higher than FY'10 (US$ 69.76/bbl). To make crucial petroleum products available at affordable prices, the Government had little option but to subsidize the prices. The upstream companies had to share this subsidy burden by 38.8%, instead of past practices of 33.3%, out of which ONGC had to share 82%. Our outgo on account of the subsidy payment of ₹ 248,920 million resulted in the net crude oil price realization at US$ 53.77 per bbl in FY'11 against US$ 55.94 per bbl during the last year.

It is also pertinent to mention that the high oil prices always escalate the cost of oil field services. Thus while the cost of input is increasing due to high oil prices, our net realization is reducing due to higher subsidy burden. This double impact of rising oil prices seriously affects our investment capacity for upcoming cost intensive projects.

You will appreciate that despite such challenging business environment, your Company has been consistently performing well. Its strategic pursuits maintain focus on locating and creating new hydrocarbon assets, prudent reservoir management, sourcing equity oil and gas, exploration of new sources of energy and meaningful integration in hydrocarbon value chain.

For locating and creating new hydrocarbon assets, your Company intensified exploratory efforts and these efforts yielded desired results. During the last five years we accreted 1,124 MMTOE in-place volumes of hydrocarbons, making average Reserve Replacement Ratio (3P reserves) 1.53 for this period, which is one of the most important parameters for sustaining the growth of your Company.

During FY'11, reserves of 63 major domestic fields, operated by your Company and having 80.6% of the total 3P reserves of 1211.39 MMTOE were audited by independent hydrocarbon reserve consultants. The overseas reserves of OVL for all its assets were also audited, and the 3P reserves were found to be more than what was estimated in-house.

Your Company made some significant discoveries in the pre-NELP blocks of East Coast like G-1 & GS-15, G-4 & GS-29, Vashishtha and S-1. Some discoveries in NELP blocks like KG-DWN-98/2 in KG Basin and MN-DWN-98/3 and MN-OSN-2000/2 blocks in Mahanadi Basin are also significant. Most of these are gas discoveries and efforts are on to monetize them. As far as discoveries in pre- NELP blocks in East Coast are concerned, your Company is planning to develop them as clusters through common facilities to optimize cost.

DOC (Declaration of Commerciality) for the KG-DWN-98/2 along with adjoining discoveries in nomination blocks and MN-DWN-98/3 has already been submitted to DGH with request for permission to drill additional appraisal wells that would help us firming up the reserves as well as our development plan.

14 major fields, which contribute more than 71% of the total production of ONGC, are 25-50 years of vintage. Improving recovery factor of these fields with prudent reservoir management practices and induction of new technology has been the focus area of your Company.

Out of 21 Improved Oil Recovery (IOR)/ Enhanced Oil Recovery (EOR) and redevelopment schemes for improving recovery factor, 15 schemes have already been completed and six are under implementation. As of 31st March, 2011, your Company has made an investment of ₹ 257.97 billion in these schemes which has yielded desired results.

Development of new and marginal fields has also been the focus area of your Company. We have taken up 10 major projects for development of new & marginal fields and one project for additional development of D-1 field with estimated investment of ₹ 248.90 billion. The fields under development are- C-Series, B-22 cluster, B-193 cluster, B-46 cluster, North Tapti gas field, Cluster-7, BHE & BH-35, WO-16 cluster, G-1 & GS-15 and SB-14. These fields are expected to be on stream by 2013-14.

ONGC Videsh Ltd (OVL), a 100% subsidiary of ONGC, has established itself as our growth vehicle by meaningful expansion in global E&P business. OVL remains focused on expanding its E&P portfolio and its equity oil sourcing is increasing every year. During FY'11, it produced 9.45 million tonne of oil and oil equivalent gas; the highest-ever. Presently it has 33 projects in 14 countries.

Your Company achieved a breakthrough in Shale gas exploration in its maiden R&D Pilot venture in Damodar Basin at Durgapur, West Bengal. We are planning to take up exploration in other potential Shale basins like - Cambay, Krishna Godavari, Cauvery and Assam-Arakan.

After successful commissioning of a 50 MW Wind Farm in Gujarat, your Company is setting up another wind farm of 102 MW capacity in Rajasthan. Besides that, ONGC Energy Centre (OEC) is pursuing several projects like, Thermo-Chemical Reactor for Hydrogen generation, Bio-conversion of Lignite to methane, Solar Thermal engine, exploration and exploitation of Uranium reserves and LED Project.

The refining capacity of Mangalore Refinery & Petrochemicals Ltd (MRPL), a subsidiary of your Company is being enhanced to 15 MMTPA and it is expected that progressive commissioning may begin from January 2012, as per schedule.

Two petrochemical projects, ONGC Petro-additions Limited (OPaL) and ONGC Mangalore Petrochemicals Limited (OMPL) promoted by your Company are progressing well and expected to be commissioned in 2012 and 2013 respectively.

726.6 MW (363.3 MW x 2 units) gas based Combined Cycle Power Plant (CCPP) is being set up at Palatana, Tripura by ONGC Tripura Power Company Ltd. (OTPC), an SPV promoted by your Company. The project aims to monetize the idle gas asset in the state of Tripura. This is a unique project for which all 90 packages of Over-dimension Cargos (ODC) are being transported through Bangladesh. Despite logistical challenges, the first GT (weighing about 300 tonnes) along with its ODCs has been successfully transported and expected to be commissioned as per schedule i.e. March 2012.

Good Corporate Governance has been the focus area of your Company. We have started implementing the voluntary guidelines on Corporate Governance issued by Ministry of Corporate Affairs. At the same time, a comprehensive Enterprise-wide Risk Management (ERM) framework has also been put in place.

You will be happy to learn that besides the conferment of 'Maharatna' status to your Company by the Hon'ble President of India in April, 2011, another significant achievement in the last year has been the recognition by the Transparency International. As per the "Promoting Revenue Transparency (PRT) Report 2011" by Transparency International and Revenue Watch, ONGC occupies the Top rank among 44 global oil and gas companies in the world as far as Organizational Disclosure Practices are concerned. You will agree that this is a genuine international recognition of our ethical and transparent business practices.

The first assured sustainability report of your Company was released on the day of last AGM, that is 23rd September, 2010. This year, we are working aggressively to bring out the second issue conforming to international standards and confirming our commitment to sustainable growth.

The Corporate Social Responsibility (CSR) initiatives of your Company continues to primarily focus on education, health, entrepreneurship development, women's empowerment, girl child development and water management. While our dedication in this front has brought us millions of smiles, it has also made us a distinct Company that cares not only for its shareholders but all stakeholders, especially the underprivileged section.

You will also be pleased to know that as per a survey conducted by Business Today (6th February, 2011 issue); your Company has been ranked as the 'Best Employer to Work For' among all PSUs as well as the 'Best Employer to Work For' in the Core Sector, including private and public.

Your unstinted support and patronage has always given us confidence to achieve new milestones at performance fronts on continuous basis. I am sure the management of your Company will continue to receive the same, encouraging us to maintain our commitment for assured sustainable growth in the years to come.

With Best Compliments,

(A.K.Hazarika)
Chairman & Managing Director

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