Annual Report 2016 -17

We See Infinity as a Possibility.

ONGC at a glance

The flagship National Oil Company of India, a'Maharatna', with interests in E&P, Refining, LNG, Power, Petrochemicals & New sources of energy

Performance Highlights (FY 2017)

- **23** Oil & Gas discoveries
- **64.32** Ultimate Reserve Accretion (2P)
- **1.45** RRR (2P)
- **500+** Wells Drilled
- **48.80** million metric tonne O+OEG Production
- **8** Onshore Discoveries monetized in year itself
- **779,078** Gross revenue (₹ Million)
- **179,000** PAT (₹ Million)
- **77,641** Dividend Payout (₹ Million) (121%)

In-house Capabilities

- Seismic Data Acquisition, Processing &Interpretation (API)
- Logging Services
- Well drilling & Work-over operations
- Well testing & stimulation
- Production & Processing
- Reservoir Management
- Applied R&D and Training
- Engineering & Construction
- Transportation

Discovered 6 out of 7 producing Basins of India

33,000+
Employees

15 Producing Assets

60 YEARS OF VALUE CREATION

8,710 MMtoe In-place volume of hydrocarbon in domestic basins

Cumulative O+OEG Production of 1,748 MMtoe

70%
Country's total hydrocarbon supplies

6,900+
Oil & Gas wells

5,223
million barrels of oil equivalent proved hydrocarbon reserves (1P)

ONGC Group Highlights

ONGC VIDESH LTD

- Acquired 26% shareholding in Vankorneft, the second largest field by production that accounts for 4% of Russian production
- Highest-ever producion of 12.80 MMtoe (increase of 43%)
- Despite low oil prices earned profit after tax during FY'17

ONGC MANGALORE PETROCHEMICALS LTD

- Achieved highest revenue of ₹52,565 Million
- Highest exports of ₹37,412 Million in FY'17
- Established a niche presence in the International market
- Capacity utilization increased consistently; 83% in FY'17

MANGALORE REFINERY AND PETROCHEMICALS LTD

- Highest-ever throughput of 16.27 MMT during FY'17
- FY'17 GRM 7.75 $/bbl; one of the best among PSU refineries

ONGC TRIPURA POWER COMPANY LTD

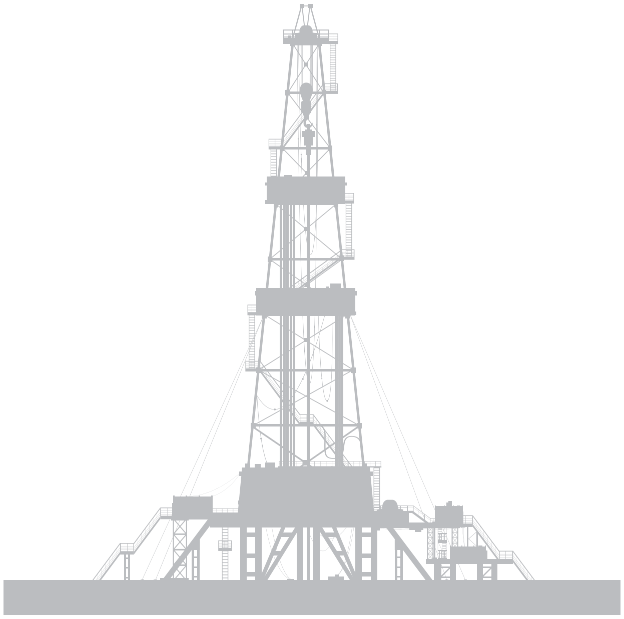
- Plant achieved highest generation of 747 MW (103%) on 15th February 2017.
- Generated record 4170 million units during FY'17
- Meets 35% power requirement of North Eastern states.
- First Dividend paying standalone gas based power generation company in India
- CERC certification obtained
- Turnover ₹12,628 Million up 22% from FY'16.
- Net Profit ₹1,385 Million, a 6 fold jump from FY'16.

ONGC PETRO ADDITIONS LTD

- Plant dedicated to the nation on 7th March 2017
- OPaL Polypropylene, HDPE and LLDPE well accepted by the market.
- The liquid products such as Butadiene, Benzene etc. being exported at a lucrative price.


ONGC
ONGC
Global Recognitions
No.1
E&P Company in the World
20th
Among Global energy majors
based on assets, revenues, profits and return on invested capital
Platts Top 250 global energy company rankings 2016
3rd
in India
220th
in world
based on sales, profit, assets and market value
Forbes business journal
12th
among Oil and Gas companies
Based on Research and Development (R&D) expenditure
2016 EU Industrial R&D Scoreboard
First of its kind
initiative by any corporate
Six ONGCians
successfully summitted
Mt. Everest
Mission Mt. Everest

Chairman's Message



Dear Shareholders,

At the outset, I thank you for your continued support.

The narrative of the global energy industry, particularly its upstream segment, over the past three years has mostly talked about the 'lower for longer' crude oil prices and its impact on approval of new projects. Irrespective of this, the upstream segment continues to remain fundamentally significant to the health and development of global economies.

In this context, I must sincerely acknowledge the trust and confidence you have placed in the Company during the recent years. As always, we remain committed to pursuing growth opportunities not only ensuring expansion of our businesses but also creating value for all our stakeholders in a sustainable manner.

With this note, I, on behalf of the Board of Directors of ONGC, country's most valued public sector enterprise, and over 33,000 dedicated energy soldiers, present to you the Annual Report for the financial year 2016-17.

Crude oil prices, even today, are less than half of their average level during January, 2011 to June, 2014. Price recovery, despite OPEC's efforts, has not been as effective as upstream companies would like to see. Investment levels in E&P globally, though improved a bit since mid-2016, continue to remain subdued.

Your Company's performance, as well as that of its other group companies, in this period of uncertainty reflects its ability to adapt quickly, plan appropriately and act effectively in an otherwise challenging environment. In a period when operational efficiency and capital discipline have become buzzwords for a sound business model, our operational and financial numbers yet again bear ample testimony to the competitiveness of our core operations, impressive inherent value of our assets and a strong balance sheet.

In FY'17, your Company made 23 hydrocarbon discoveries with total reserve accretion of 64.54 Million Tonnes of Oil and Oil Equivalent Gas. The overall 2P Reserve Replacement Ratio (RRR) was 1.45, making it the 11th consecutive year when the Company has recorded an RRR in excess of 'one'. This is really impressive by all standards.

At the same time, cost of finding new hydrocarbons in FY'17 was 11 percent lower than that of FY' 16. What further adds sheen to this performance, was the fact that your Company successfully monetised 8 out of the 13 onshore discoveries within the same year. It reaffirms a more disciplined and focused approach in project execution adopted during the year and the mind-set of our teams understanding urgency for monetisation of our resources. ONGC, credited with establishing six out of the seven producing basins in India, is now planning to add Kutch Saurashtra basin to country's hydrocarbon production map.

Constant efforts on the production front in FY'17 have yielded meaningful results. Standalone domestic output from the ONGC-operated fields during the year stood at 22.25 MMT as compared to 22.37 MMT in the preceding fiscal. While this represents a marginal y-o-y drop, disrupting two consecutive years of stable production, we are positive of a turnaround in FY'18 on the back of completion of ongoing offshore development projects as well as recent strong performance of onshore fields. During FY'17, declining crude oil production trend was reversed – onshore crude production increased in FY'17 to 5.97 MMT against 5.83 MMT in FY'16. The increase is expected to continue during the current fiscal.

The Company also recorded a strong year in terms of domestic gas production, which registered an increase of 4.3% – from 21.18 BCM in FY'16 to 22.09 BCM during FY'17, the first increase in last four years. Gas production increased in onshore fields by 9% and in offshore fields by 3% over FY'16.

Drilling performance also improved significantly, with drilling of 501 wells – the highest-ever. Drilling efficiency, in terms of metres drilled per rig-month, improved by 25% in FY'17 as compared to FY'16. Drilling cost per-meter declined notably by 18% due to improved operational efficiency, introduction of new technology and reduction in cost of hired services.

While your Company is, by far, India's most dominant domestic oil and gas producer, what continues to be of concern and is of larger interest to the nation, is the degree of our dependence on hydrocarbon imports. Over the past 10 years, the forex outgo on account of crude oil imports stands at USD 1 trillion – a staggering number by any measure. Hon'ble PM has given an ambitious target to achieve a 10% reduction in imports by the year 2022. This is a clear indication of severity of the issue and its potential implications for the country's energy security. Emphasis on augmentation of domestic hydrocarbon production was clearly outlined as part of the overall strategy outlined in the industry roadmap designed to deliver on the PM's vision of greater energy self-sufficiency.

Over the past three years, while most of the global upstream companies have held back project investment decisions, ONGC has adopted a counter-cyclical approach. ONGC believes that this is the right time to execute E&P projects when cost of oilfield services and equipment is lower in sympathy to lower crude prices and lower level of project activity globally resulting in keenness of reliable business partners to collaborate for timely completion of our projects. The current time is unprecedented in terms of Government support environment.

During FY'15 to FY'17, 17 development projects with total capital investment of over ₹760,000 million were approved. These projects which are under various stages of execution would enable monetisation of 190 million tonnes of oil and oil-equivalent gas. The collective production from these projects during the year 2020 -2021 is expected to be 50 % of ONGC's current oil and gas production. These projects include development of Cluster 2 of the deepwater NELP block KG-DWN 98/2 in India's East coast at an investment of over-USD 5 billion (₹340,000 million) largest-ever investment by ONGC in a single project, aiming at monetisation of 71.36 MMToe of oil and gas reserves.

During the same period of FY'15 to FY'17, as many as 15 mega projects – 8 brown field and 7 greenfield (re)development projects – with total investment of ₹543,727 million were completed. The envisaged production from these projects is expected to be 143 million tonnes of oil and oil-equivalent of gas. These projects contributed 19.2% to ONGC's oil and gas production during FY'17.

Your Company's volume growth in the years to come will largely hinge on timely execution of the projects under implementation, as well as identification and formulation of new (re)development projects. A dedicated project management office has been put in place, which not only keeps track of the progress on real time basis in the critical projects but also flags any potential bottlenecks in implementation ensuring timely corrective action. Notwithstanding a difficult market landscape, your Company remains steadfastly engaged in taking the country's energy drive forward for creation of value for all stakeholders.

The slow recovery in global crude prices from mid-2016 translated to a 6.6% rise in our net realization for every barrel of crude sold. While revenues from crude sales inched up by 7%, low domestic gas prices contributed to a 23% reduction in our gas sales value despite 5% increase in gas sales volume. Overall, our gross revenues in FY'17 was ₹779,078 million, compared to ₹777,418 million in FY'16. Our combined group turnover for FY'17 was ₹1,421,490 million (₹1,356,642 million in FY'16). Standalone Profit-After-Tax (PAT) was ₹179,000 million (up 10.9%) while the Group PAT was ₹204,979 million(up 59.2%). Standalone profit growth was on account of higher crude price realization and reduction in exploratory cost write-off despite lower gas prices, provision for past royalty expense and provision for pay revision. The robust uptick in group profit was driven by strong performances of both the subsidiaries – overseas business arm ONGC Videsh and downstream subsidiary MRPL.

Your Company remains one of the strongest performers in terms of dividend pay-out. ONGC has consistently maintained a dividend pay-out ratio of over 45% in 9 of the last 11 years. In FY'17, our pay-out ratio was 52%. In fact, in the past three years, a period when most global upstream oil companies had to resort to aggressive cuts in capex and project deferrals to honour their dividend commitments, your Company was able to sustain tradition of higher dividends as well as initiate new mega projects ensuring long-term sustainable growth of your Company. Total dividend distribution for FY'17 stood at ₹93,430 million, inclusive of dividend distribution tax and final dividend.

Internationally as well, the Company's business is on a secure and strong footing. After a difficult FY'16 with a loss of ₹36,401 million, ONGC Videsh – the 100% subsidiary – made a profit of ₹6,974 million in FY'17. Acquisition of 26% stake in Vankorneft resulted in significant production growth during FY'17. Overseas hydrocarbon output stood at 12.8 MMToe compared to 8.92 MMToe during FY'16, with the share of ONGC Videsh in Venkorneft production at 4.55 MMToe. Looking ahead, production in current fiscal is expected to be even higher as full-year of Vankorneft's production is counted.

Your Company's performance in the downstream segment (refining and petrochemical) in FY'17 has also been excellent. MRPL registered its highest-ever crude throughput at 16.57 MMT. The refining unit recorded an impressive GRM of $7.75 per barrel, an improvement of close to 50% relative to FY'16. Turnover of refining operations clocked a 17% growth over FY'16 at ₹599,891 million. MRPL's PAT surged by over 500% to the highest-ever level of ₹32,932 million in FY'17 versus ₹5,058 million during FY'16. MRPL continues to be operationally one of the most efficient PSU refineries in the country with the capacity to process a wide variety of crude grades. The refinery also delivered its highest-ever distillate yield, highest-ever diesel production as well as highest-ever LPG production. MRPL is focused on expanding its domestic market presence by direct marketing of its products Petcoke, Sulphur and Polypropylene. MRPL is now widening its Polypropylene product range to penetrate different market segments thereby securing higher margins.

During the same period, OMPL, a petrochemical venture of the ONGC group, now a direct subsidiary of MRPL, achieved highest revenue of ₹52,566 million with exports of ₹37,412 million in FY17, while now operating at 95% utilization, establishing a niche presence in the international markets.

All the units at ONGC Petro Additions Ltd (OPaL), the biggest downstream integration projects of the country, were commissioned during FY'17. The unit was dedicated to the nation in March, 2017 by Hon'ble Prime Minister.

The JV entity in the power segment, the 726.6 MW OTPC Power Plant, the biggest ever energy infrastructure project in the country's North-eastern region and located in the State of Tripura, recorded a net profit of ₹1,385 million in FY'17, a Six-fold jump over FY'16. Besides being the globally biggest UNFCCC-registered CDM project, it also is India's first dividend paying stand-alone gas-fuelled power generation company.

Your Company has always placed a very high importance on the implementation of new technologies and innovative methods in its operations. Advanced and state-of-the-art technologies like broadband 3D seismic survey for exploratory efforts in the Western offshore and under-balanced drilling for some of the development wells, have been implemented. Technology will continue to play an increasingly critical role for upstream companies in a post-COP 21 energy scenario that strongly emphasizes on minimizing carbon emissions, improving energy efficiency and greater safety of operations.

Towards making ONGC a 'Carbon-Neutral' Company, several initiatives such as 'Paperless Office' and optimising water foot print in operations have been rolled out. 20% reduction in gas flaring during FY'17 via-a-vis FY'16, has been achieved. Your Company has 15 registered CDM projects with UNFCCC with potential to yield about 2.1 million Certified Emission Reductions (CER) annually. In terms of the share of green energy forms in the energy portfolio, the Company presently has two operational wind farms with a combined capacity of 153 MW. We are exploring further opportunities in renewables. ONGC is among few Indian corporates to feature in the Newsweek Global 500 Green Energy Rankings.

Today, your Company has a steady performance history of more than 60 year. Besides its exceptional contribution towards the national economy and creating value for its shareholders, even as a Corporate citizen, ONGC has made enormous contribution. Its CSR program is a sterling example of how a corporate creates additional value for all its stakeholders. In FY'17, your Company spent as much as ₹5,259 million in its CSR initiatives in the areas of education, health, skill development etc.

Your Company created history with 6 of its employees successfully climbing the summit of Mount Everest, thus joining the galaxy of few corporates globally achieving this feat. It is one-of-its-kind of employee engagement initiative taken by ONGC during the FY'17. The team members were also felicitated by the Hon'ble Minister of Petroleum and Natural Gas, Government of India.

Before I conclude, I would like to thank the Government of India, in particular the administrative ministry – ministry of Petroleum and Natural Gas, for its constant support and encouragement. Through this message, I also assure every stakeholder of our whole-hearted commitment and efforts towards creating a more self-reliant and vibrant energy ecosystem within the country, while creating more value for our shareholders.

Last but not the least, I take this opportunity to acknowledge and appreciate the support of our valued shareholders. Your contribution in the form of your belief and investment in the Company does not need any elaboration and is valued by us at all times.

At the successful closure of yet another financial year, I thank you for your invaluable support and guidance.

Dinesh K Sarraf
Chairman & Managing Director

Those who initiate change will have a better opportunity to manage the change.