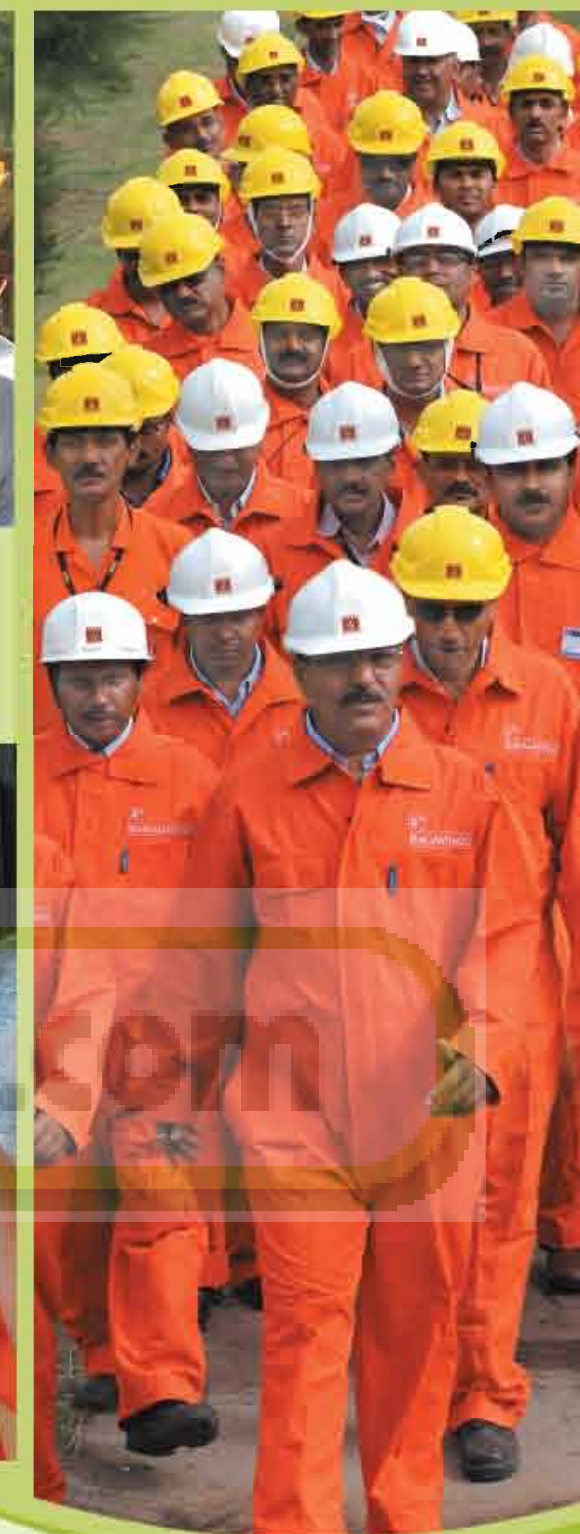


Well Lunej #1, the first ONGC Well was spudded on 25th July 1958 and the first trickle of oil flowed on 4th September 1958. Lunej scripted the hydrocarbon Saga of India.

ongc

Annual Report 2008-09



Our Most Valuable Asset - Our People




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Conceptualized and designed by R K SWAMY BBDO



**Annual Report
2008-09**



The challenge to man our
Offshore Rigs can daunt the
bravest of men. But for the
ONGCians it is just another
goal to conquer.

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Chairman's Message

Dear Shareholder,

Let me share with you the pleasure for all round commendable performance of your valued Company, despite the fact that the global economy has been in churning state since more than a year and continues to be sluggish.

During the year under review, your Company set most significant milestone of highest reserve accretion in the last two decades. On financial parameters, the Company also achieved highest-ever Sales Revenue of Rs. 639,682 million; 6% more than the previous year. Net Profit at Rs. 161,263 million however has been 3% lower than the previous year, mainly on account of sharing huge burden of under recoveries of the Oil Marketing Companies (OMCs), to the extent of Rs. 282,252 million.


However, despite lower profits your Directors have recommended a final dividend of Rs.14 per share (140%); maintaining the aggregate dividend at Rs. 32 per share (320%), at par with the last year, which happened to be the highest aggregate dividend.

You may recall, in my last communiqué, I had mentioned that the north-bound crude price is a major concern that the economies need to address on top priority. Crude oil price increased exponentially till July 2008; peaking at \$147 per barrel on 11th July 2008. Its build up, though sudden, was perceived to be consistent and robust with high-growth global economy at that time. In reality, the historical levers of oil markets went out of the grips of the producers as well as the consumers and were hijacked by the speculators on the commodity exchanges.

One of the worst global recessions witnessed crumbling of established institutions, bankruptcy of major investment banks,





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closure of companies, liquidity crunch, job cuts, etc.; all extremely painful. High crude oil price has also been one of the contributory reasons for the devastating economic meltdown. The three digit oil regime stretched the energy deficient economies, developed or developing ones, to the extent that it gradually got detached from consumer spending and confidence. And as the global economies plummeted, one after another, oil demand moderated and with sentiments turning negative on commodity exchanges, the oil prices nose-dived. However, the present moderation is deemed to be temporary and demand is bound to bounce back once the economies gain comfort zone.

As such, sustaining supplies remains the first priority for the industry; not only from the present assets, but even from all the plays which attracted attention in high-price regime like, deepwater, ultra-deepwater, oil sands etc. Commitment, investment and technology will play a major role in tapping this large pool of located and yet-to-be-discovered resources or from new and alternate sources of energy. Industry will have to eschew volatility which requires paradigm shift in policy framework; not only from producers and consumers but even at the commodity exchanges.

Against this backdrop, if you evaluate the performance of your Company you will appreciate that the company focused on its core, maintained the right balance of growth portfolios and prudently invested for the future.

During the year 2008-09, your Company accreted 284.81 million metric tonnes (MMT) of in-place volume of hydrocarbons; the highest in the last two decades, as stated above. I believe this is the result of the **first strategic pursuit** of your Company i.e., '**intensified exploration**'.

The **second strategic pursuit** of your Company has been '**improving recovery factor**'. Your Company has systematically been implementing Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) projects in 15 major fields since 2001. The IOR/ EOR schemes helped in improving recovery factor of fifteen major fields from 27.5% in 2000-01 to 33.1% in 2008-09. At the same time, these schemes along with other measures helped in arresting natural decline in these mature fields (of 25-30 years vintage) and in maintaining production levels. During the year, your Company, alongwith share from overseas assets of OVL and domestic joint ventures, registered 61.23 MMT of O+OEG production; marginally (1%) lower than last year's highest-ever production of 61.85 MMT.

Your Company is aggressively pursuing for overseas E&P projects for equity oil and gas; the **third strategic pursuit** of your Company. ONGC Videsh Limited (OVL), the wholly-owned subsidiary of your Company, is now participating in 40 E&P projects in 16 countries. During the year 2008-09, OVL acquired seven E&P projects in five countries; two being producing properties, and registered highest-ever ultimate reserves (3P) accretion of 135.08 MMT. This fiscal, OVL's share in equity oil and gas has been 8.78 MMT of O+OEG.

During the year, your Company incurred Capex spend of Rs. 218,201 million for its various activities; more than 94% being on the core activity Exploration and Production (E&P) of hydrocarbons. OVL invested Rs. 161,049 million towards overseas projects during FY'09. These investments were guided by the strategic pursuits of your Company and the listed priorities which have been mapped for sustained growth.

Among the listed priorities, the first one is expeditious development of discoveries. You may be pleased to note that 45 out of 111 discoveries made since 2002-03 have already been brought to the stream and remaining discoveries are at different

stages of appraisal. Your Company has constituted a new dedicated business unit for focused development of recent East Coast discoveries.

Your Company has systematically been inducting state-of-the-art technology. At the same time, upgradation of existing equipment and infrastructure has also been taken up on rolling basis to debottleneck field infrastructure for better efficiency.

With a vision to emerge as an Energy Company, the management has been aggressively exploring new sources of energy, like Coal Bed Methane (CBM), Underground Coal Gasification (UCG), Shale Gas, etc. Your Company has established meaningful leads in Coal Bed Methane (CBM) exploration recently. The pilot project at Parbatpur, Jharkhand is expected to commence production this year. UCG Pilot project at Vatsan, Gujarat is also expected to commence its operations next fiscal. Your Company has initiated Shale Gas exploration for which Damodar Basin, Jharkhand, has been identified for the first pilot project.

Looking beyond hydrocarbons, green and sustainable energy solutions are yet another priority for your Company. This is more so required for energy security of the nation. ONGC Energy Centre has taken up a number of research projects in the area of new and alternate energy. After commissioning of a 50 MW Wind Power Plant in Gujarat, your Company is now planning to set up a Photo Voltaic Solar farm of 10 MW. Your Company is also pursuing Uranium exploration in association with Uranium Corporation of India Limited (UCIL).

The value-multiplier projects which the Company is pursuing in the areas of Petrochemicals, SEZs, Power, etc., are progressing well and once commissioned will provide integrated dimension to your Company's business pursuits with huge upside potential.

This year again your Company has received 'Nil' comments from CAG and Statutory Auditors; the third time in a row. This proves our conviction for the best accounting and disclosure practices. Recognizing various initiatives for good governance practices, Standing Conference on Public Enterprises (SCOPE) bestowed Gold Trophy in November' 2008 (top honours) for the 'SCOPE Meritorious Award for Good Governance 2006-2007' to your Company.

Your Company, a responsible Corporate Citizen, has also enhanced its commitment towards Corporate Social Responsibility (CSR). It has resolved to earmark 2% of the net profit (compared to 0.75% earlier) for the various CSR projects which will be looked after by a dedicated group.

Health, Safety and Environment (HSE) has always been a focus area for your Company and we can boast of having adopted best of the standards and practices.

Your Company's performance and efforts have been well recognized the world over. ONGC, a Fortune Global 500 company, has been ranked as Number One E&P Company in the world and 25th among leading global energy majors as per Platts Top 250 Global Energy company rankings 2008; based on assets, revenues, profits and Return on Invested Capital (ROIC) (October 2008). Further, your Company is the only company from India to figure in the elite list of 40 companies, out of Fortune Global 500 companies list of 2009, based on Return on Revenues and Return on Assets.

Your support and confidence continues to motivate us to excel in all our endeavours. We the ONGCians commit ourselves to ensure sustained growth of the organization and emerge as a global Energy Company with innovative solutions in near future.

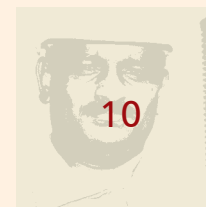


(R S Sharma)
Chairman & Managing Director



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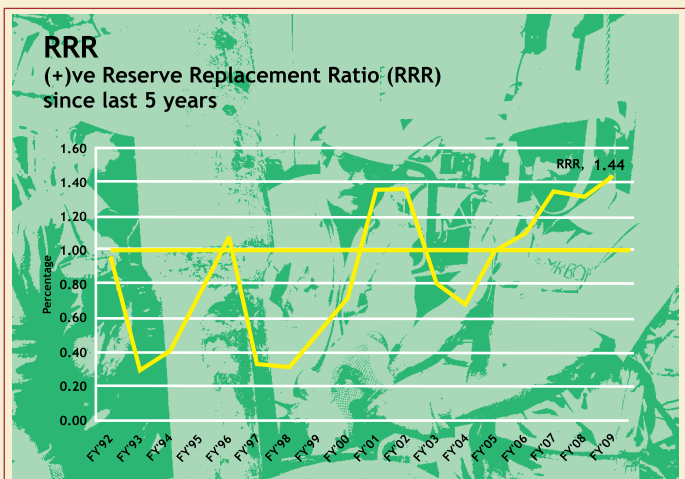
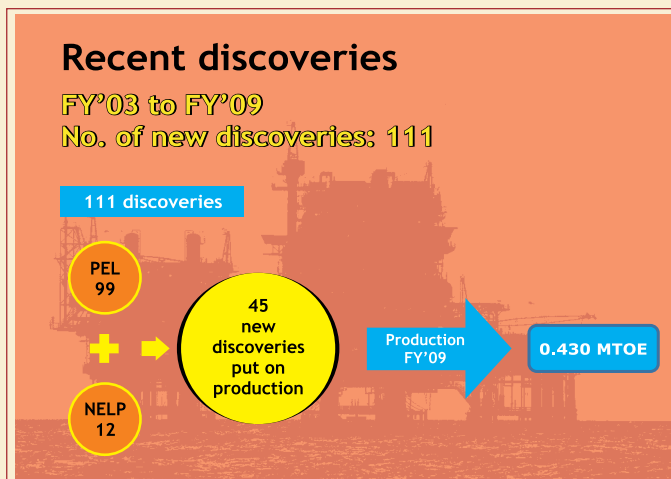
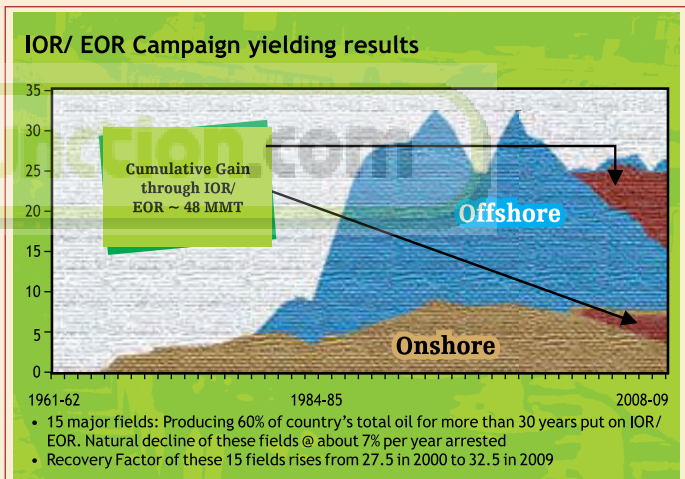
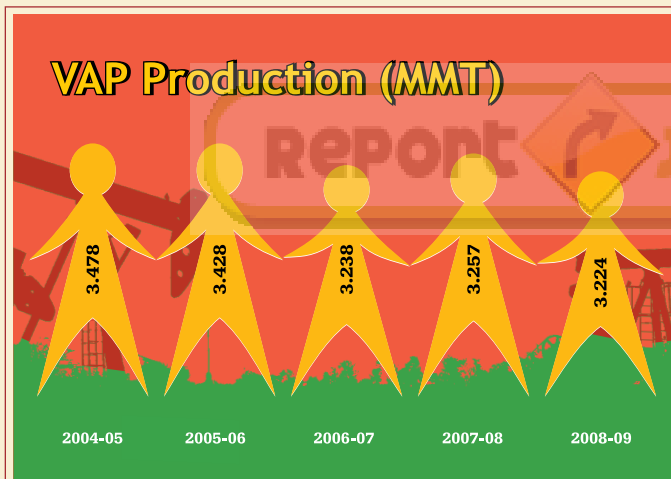
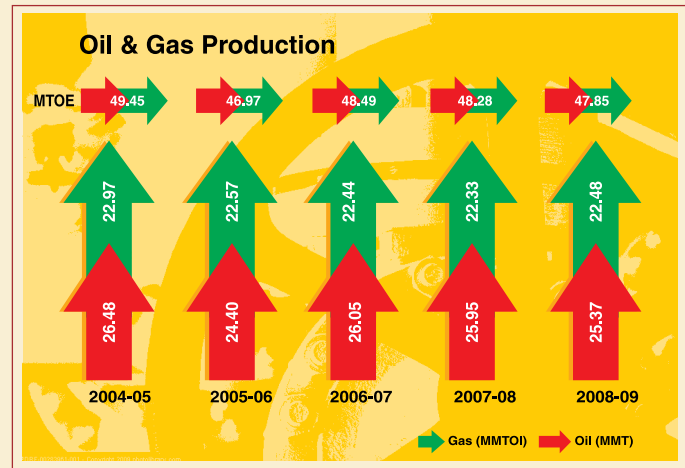
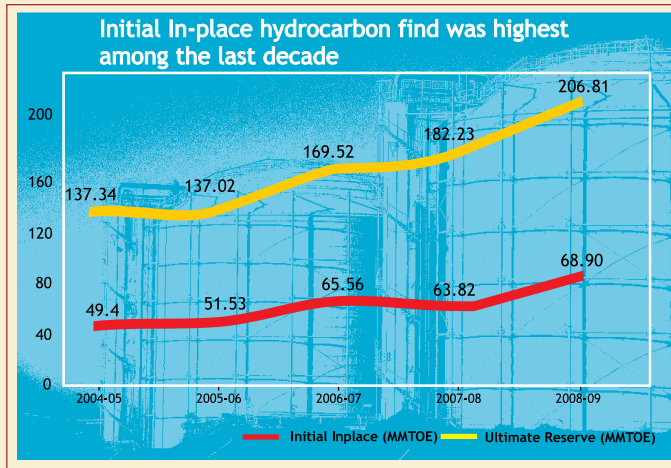


.....Statement Pursuant to Section 212 of the Companies Act, 1956



.....Consolidated Financial Statements of ONGC Group

Operational highlights FY '09





Financial highlights FY '09

