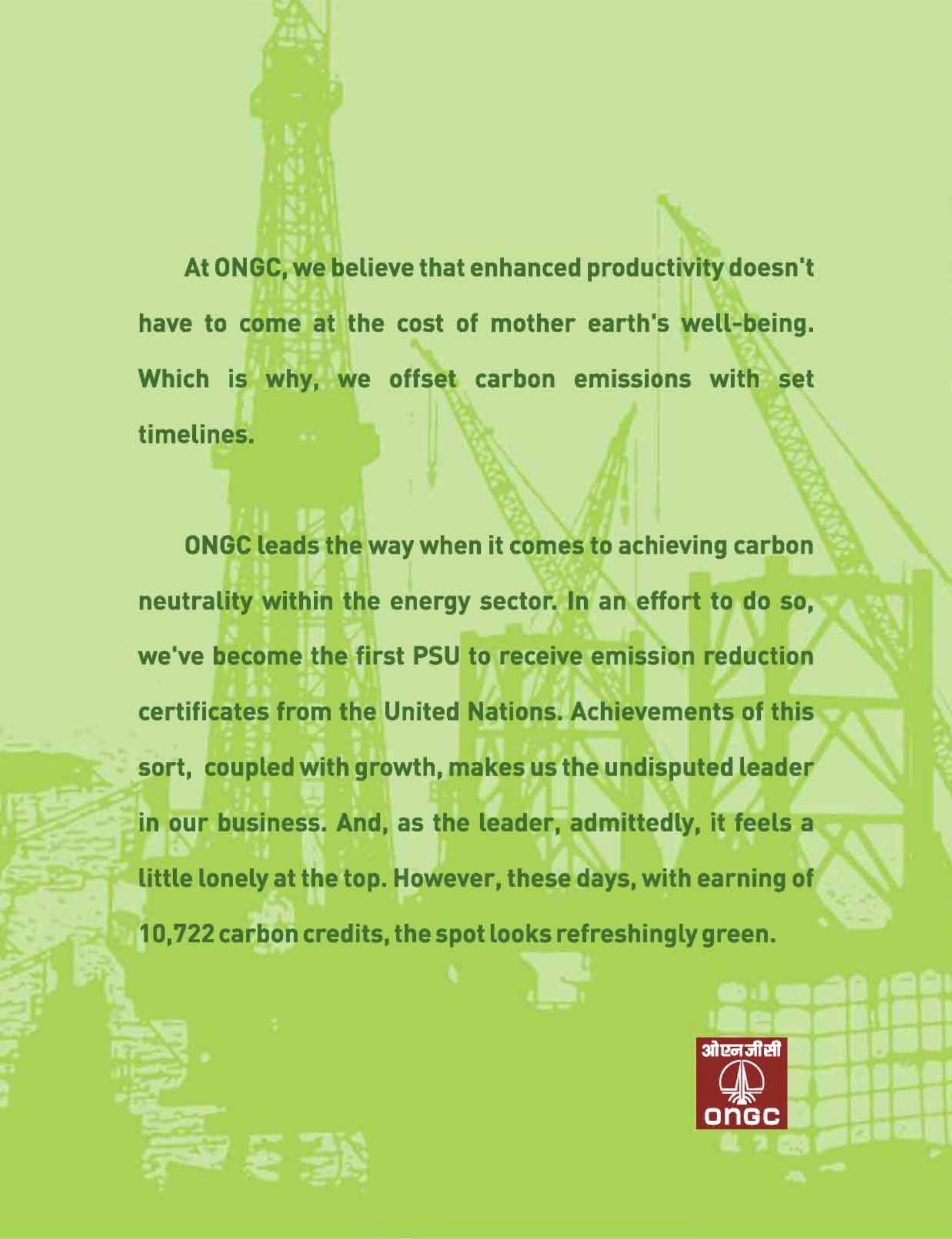
ANNUAL REPORT
2009-10

Towards a low carbon future.



ओएनजीसी
ONGC

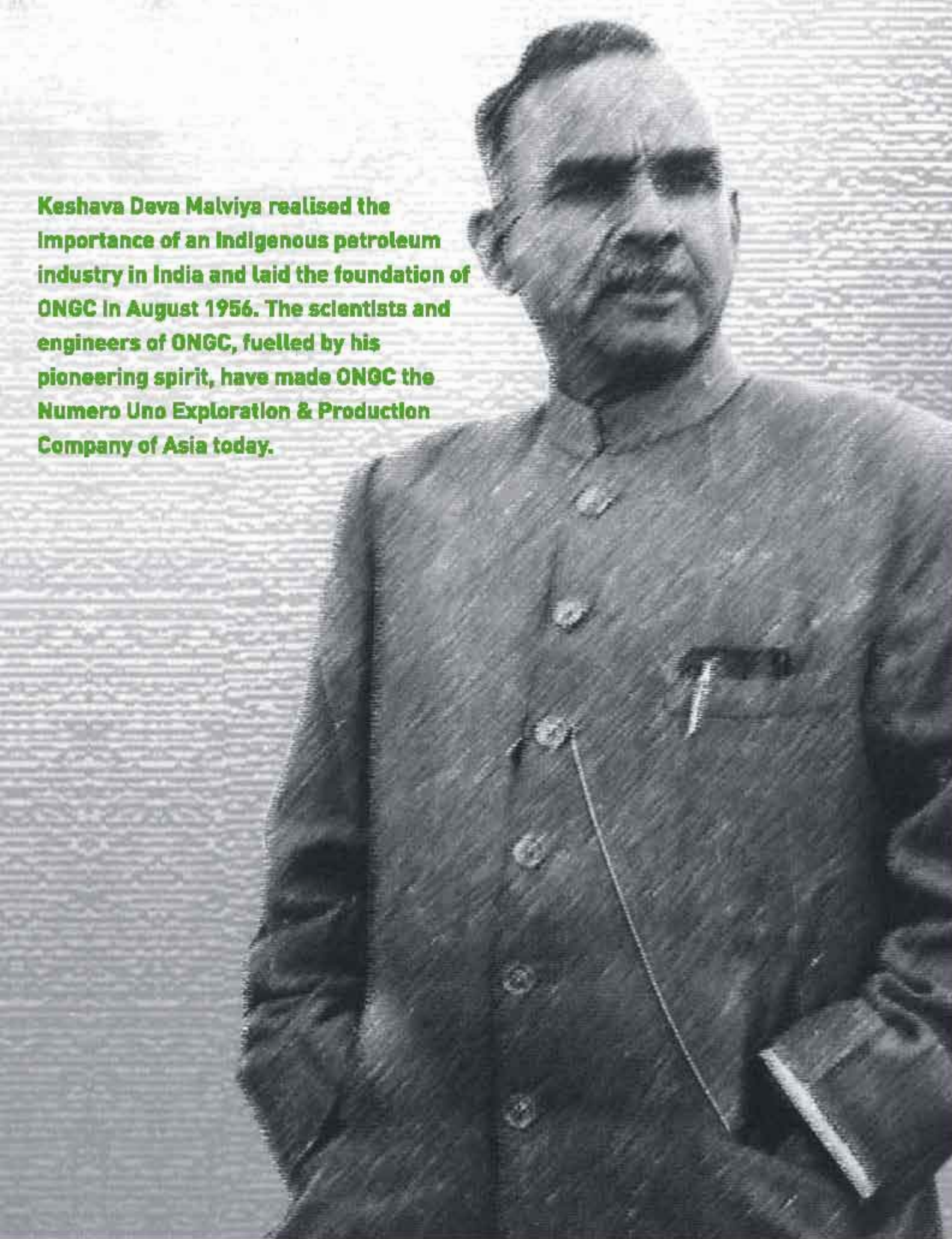


At ONGC, we believe that enhanced productivity doesn't have to come at the cost of mother earth's well-being. Which is why, we offset carbon emissions with set timelines.

ONGC leads the way when it comes to achieving carbon neutrality within the energy sector. In an effort to do so, we've become the first PSU to receive emission reduction certificates from the United Nations. Achievements of this sort, coupled with growth, makes us the undisputed leader in our business. And, as the leader, admittedly, it feels a little lonely at the top. However, these days, with earning of 10,722 carbon credits, the spot looks refreshingly green.

ओएनजीसी

ONGC



Keshava Deva Malviya realised the importance of an indigenous petroleum industry in India and laid the foundation of ONGC in August 1956. The scientists and engineers of ONGC, fuelled by his pioneering spirit, have made ONGC the Numero Uno Exploration & Production Company of Asia today.





Dear Shareholders

It is indeed my privilege to share with you the admirable performance of ONGC in the fiscal FY'10. Once again, your Company has set many a milestones. After rigorous screening, the Government of India (GoI) has decided to bestow 'Maharatna' status to your Company with enhanced empowerments and distinctly higher stature as a premier Public Sector Enterprise.

In recent years we intensified our exploratory efforts which have started yielding desired results. During FY'10, ultimate reserve accretion (3P) has been 82.98 MTOE in ONGC operated fields; the highest in last two decades. Our organic Reserve Replacement Ratio (RRR) has exceeded one for the fifth consecutive year. RRR at 1.74 (3P reserves) during FY'10 is the highest in last two decades. Production levels too were maintained amidst global trend of declining production from ageing fields.

Your Company recorded the highest-ever Net Profit of ₹ 187,678 million. Its Net Worth became even more healthier at ₹ 864,413 million despite sharing under-recoveries of ₹ 115,540 million as per the Government directives.

The Board of Directors of your company have recommended final dividend of ₹ 15 per share (150%). With this the aggregate dividend for FY'10 at ₹ 33 per share (330%) is 10% more than the last year (320%) and the highest-ever in absolute terms.

On 25th June, 2010 the Government decontrolled price of Petrol and increased the prices of Diesel, LPG and SKO. This may help in reducing under-recoveries and uncertainties to some extent. The earlier decision w.e.f 1st June 2010 for revision in APM gas price from about US$ 1.79/ mmBtu to US$ 4.20/ mmBtu (including royalty) will certainly provide much needed upside to the gas business. As per this GoI decision, the non-APM gas from nominated fields shall fetch us even higher market determined price.

You will appreciate the fact that your Company continued to pursue growth strategy despite the fact that global economy was in shambles and the oil industry has been at crossroads since later half of 2008. In just a small span of time a number of pressure points have emerged for the industry which beg for finding a new energy paradigm for resolution.

As if constraints on easy to access oil, an ever increasing demand from the emerging economies, volatility in oil prices, declining discoveries, lower investments, and the environmental urgency of reducing carbon footprint were not enough, that now hate cries are emanating against the industry after Macondo blowout in Gulf of Mexico (GOM).

Sincere efforts are on to permanently cap oil flow and contain the spill by the operator; the accident is bound to prove a 'game changer' for upstream industry particularly offshore operations. Likely stricter regulations may put a spanner for E&P industry. The offshore, especially the deep and ultra-deepwater are one of the few frontier areas where future of oil and gas industry lies.

In such tight supply scenario, the industry is looking for all options. Shale gas revolution in USA, growing interest for ethanol, exploitation of tar-sands, exploration in arctic regions, etc., are few developments which will bring permanent changes for the industry. However, these initiatives are not hassle free. Increasing ethanol production is now linked with crippling shortage of critical food crops and increasing food inflation. Requirement and disposal of water is fast emerging as an environmental issue with shale gas exploitation. As such a balanced and sustainable approach becomes imperative for which industry will have to focus.

Your Company is also pursuing these opportunities aggressively, albeit with stricter and more rigorous approach to safety and unflinching commitment towards sound practices. Our approach for enhancing and augmenting oil and gas production has been multipronged; namely discover and develop new fields, arrest decline and augment production from matured fields, sourcing equity oil and gas from overseas assets and developing new gas sources. Alternate sources of energy also are a focus area.

We have set an accelerated programme for monetizing marginal and new fields. Of the 134 discoveries made since 2002 (21 of them in FY'10), a total of 58 discoveries have already been put on production. Few others are on fast track of appraisal and development; especially the Cluster-7, WO series, B-193, D-1 additional, B-22, North Tapti, etc. In addition, development programme of Northern Discovery Area (NDA) in KG-DWN 98/2 is set to begin after DGH gives its seal on Declaration of Commerciality (DOC). We have also taken up expeditious development of Daman-Tapti block. These are expected to propel our crude oil and gas production quite significantly in next few years with gas production over 100 mmscmd by 2016.

In the NELP-VIII round of bidding your Company has been awarded 17 of the 31 awarded blocks; 14 of them with operatorship. Your Company remains the largest acreage holder in the country and has prioritized exploratory efforts to convert these exploration licenses to mining lease.

Negating decline and augmenting production from the matured fields through technology and capital intensive IOR/ EOR schemes remains your Company's priority. A total of ` 209.44 billion has been invested since 2001 in 21 IOR/EOR schemes and re-development projects; out of these 14 schemes have been completed. This has resulted in a cumulative oil gain of 56 MMT till FY'10 and enhanced the recovery factor of these 15 fields from 27.5% in FY'01 to 33.5% in FY'10.

The growth vehicle of your Company, ONGC Videsh Limited (OVL) with 40 projects in 15 countries sourced 8.87 MTOE of oil and gas in FY'10; **the highest-ever**. I am also pleased to share that OVL led consortium has acquired a mega project with 40% participating interest in Carabobo project in Venezuela. The first oil from the project is expected to flow in 2012-13 with estimated peak production of 400,000 barrels of extra heavy oil per day in 2014-15; 44,000 bbl/day being OVL's share.

Another asset, the BC-10 in Brazil, where OVL has 15% participating interest commenced production from 12th July, 2009 onwards and is currently producing 72,500 bopd. Production from Imperial Energy assets in Russia, which was acquired in January, 2009 has been ramped up to 16,700 bopd from 6,000 bopd when it was acquired.

The nameplate capacity of Mangalore Refinery & Petrochemicals Ltd. (MRPL), a subsidiary of your Company, has been increased from 9.69 MMTPA to 11.82 MMTPA during FY'10. MRPL registered thruput of 12.5 MMT during FY'10. The refining capacity of the MRPL is being enhanced to 15 MMTPA by March, 2012.

Beyond core E&P activities, your Company's efforts towards new gas sources are also laudable. CBM production from the pilot Parbatpur, Jharia project has started in January 2010. Environmental clearance for UCG pilot project at Vatsan, Gujarat has been obtained. Your Company has also taken lead in exploration of Shale Gas in the country by launching an integrated pilot Shale gas project in Damodar valley in April 2010 in association with M/s Schlumberger and with an envisaged investment of ₹ 1,280 million.

The value-multiplier projects in the areas of Power, Petrochemicals, SEZ, etc., are at different stages of completion and all of these projects are scheduled to be commissioned during 2012/2013.

Alternate sources of energy have a huge potential and they may prove to be a significant contributor to the energy basket in future. Keeping this in view, your Company has adopted a holistic approach to leverage potential opportunity. Your Company is planning to establish another 100 MW Wind farm and a Photo-voltaic solar plant. ONGC Energy Centre, which is pursuing a number of alternate energy source projects, generates lot of hope in this regard.

For all these endeavours, your Company has catered for systematic and required investment plans. During FY'10, Capex has been ₹ 235.59 billion (11% more than FY'09) for its domestic operations, ₹ 49.92 billion for overseas operations and ₹ 14.15 billion for MRPL. During FY'11, Capex is estimated to be ₹ 265 billion for domestic operations, ₹ 86 billion for overseas operations and ₹ 32 billion for MRPL.

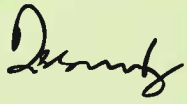
Your Company's 6th Clean Development Mechanism (CDM) project was registered with United Nations Framework Convention on Climate Change (UNFCCC) on 1st March, 2010. Here, I would like to share with you that UNFCCC has issued the first set of Carbon Emission Reduction (CER) units to ONGC for its first registered CDM project, 'Waste Heat Recovery Project at Mumbai High' on 18th March, 2010.

Ever mindful of its social responsibility, your Company has enhanced its contribution to Corporate Social Responsibility (CSR) projects to 2% of its net profit. These contributions now encompass the whole gamut of social fabric including welfare, health, education, culture, etc. Your Company's CSR initiatives have been bestowed with Gold Trophy for SCOPE Meritorious Award for Corporate Social Responsibility & Responsiveness for the year 2007-08 which was presented on 10th April, 2010.

Your Company is also fully committed to good Corporate Governance and ethical practices. Your Company unilaterally launched a Whistle Blower Policy on 1st December, 2009, again the first to adopt this unique policy.

You may be pleased to know that this year also your Company received 'nil' comments from CAG as well as Statutory Auditors; the fourth time in row and six times in last seven years.

I will round up with a firm commitment and earnest efforts to fulfill what has been captured in the new Vision Statement of your Company: **"To be a global leader in integrated energy business through sustainable growth, knowledge excellence and exemplary governance practices."**



(R.S. Sharma)
Chairman & Managing Director

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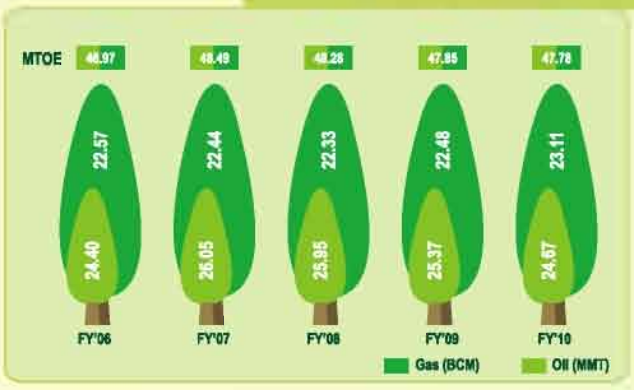
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Highest Reserve Accretion in last two decades



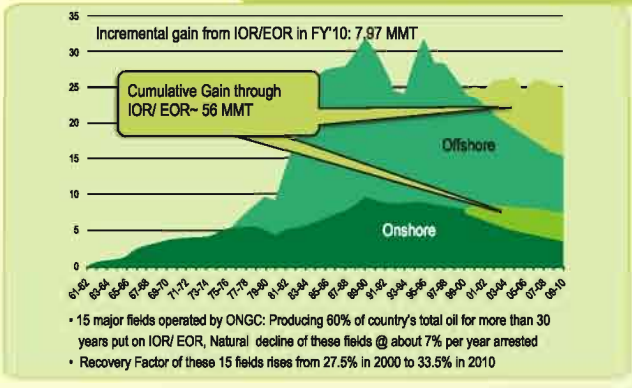
Oil & Gas Production



VAP Production (KT)



IOR/EOR Campaign yielding results



- 15 major fields operated by ONGC: Producing 60% of country's total oil for more than 30 years put on IOR/ EOR, Natural decline of these fields @ about 7% per year arrested
- Recovery Factor of these 15 fields rises from 27.5% in 2000 to 33.5% in 2010

Wells Drilled (Nos.)



Oil & Gas Reserves (MTOE)

