



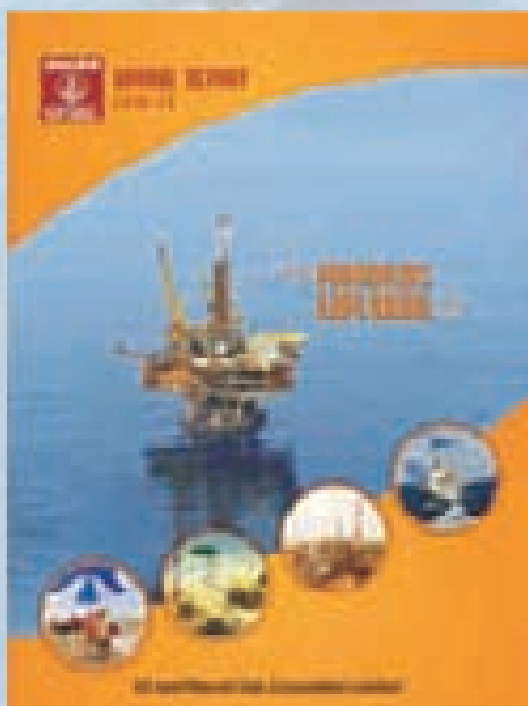
# ANNUAL REPORT 2014-15

OPENING  
NEW **PARADIGMS**  
**EXPLORING** DEEPER  
PLAYS



Oil and Natural Gas Corporation Limited





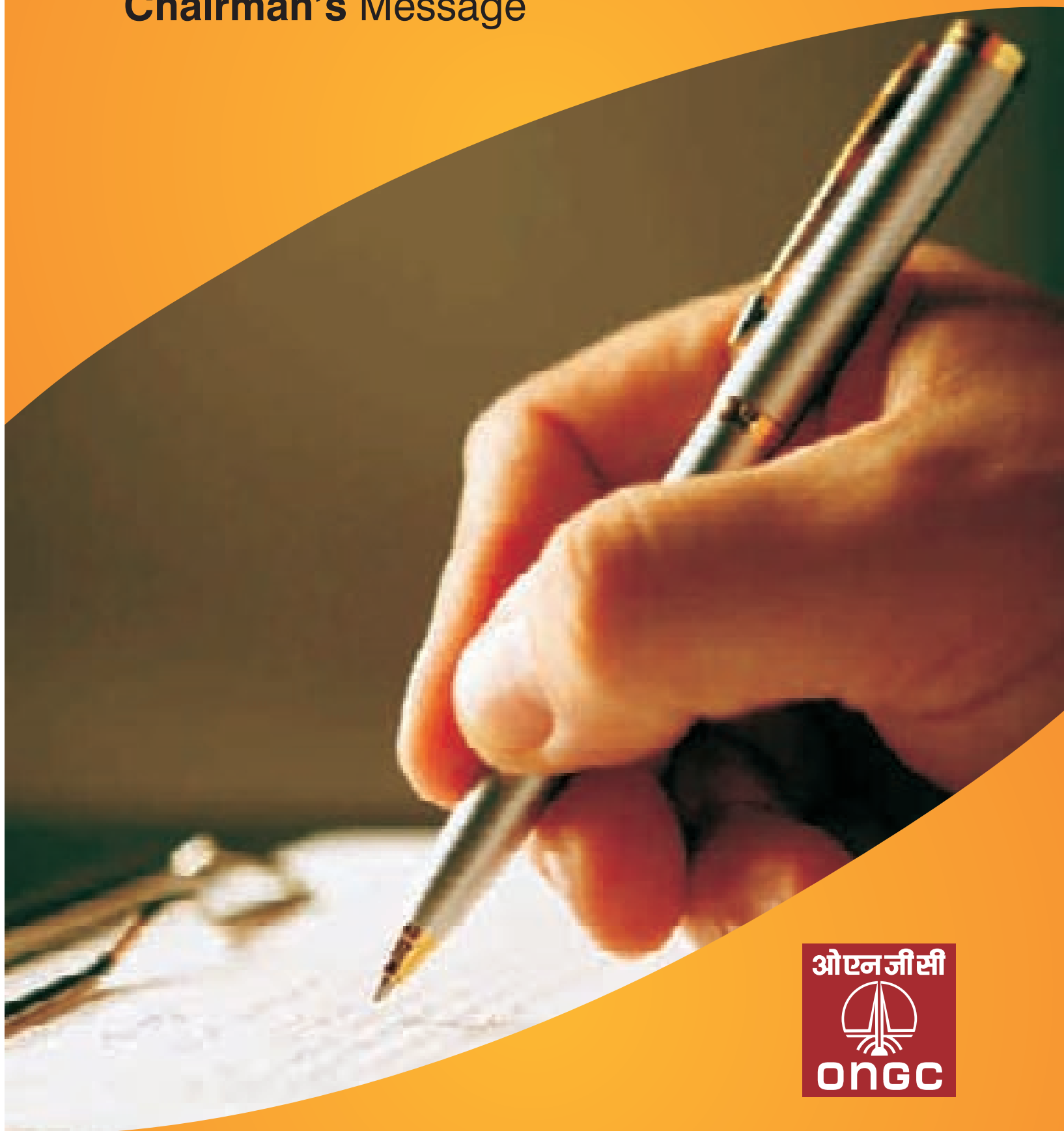
ONGC's quest for energy goes deeper than setting new benchmarks in deep-water drilling in the Krishna Godavari Basin or finding new frontiers of energy. Global decline in crude prices notwithstanding, we have taken significant investment decisions diligently and aggressively, reversing the production trend in offshore.

And now we are venturing into deeper offshore plays in our quest for energy security. It is this journey that has placed us among Fortune "World's Most Admired Companies" and ranked us 3<sup>rd</sup> in the E&P industry globally on the Platts Top 250 Rankings 2014.

It is this spirit of going beyond boundaries that is depicted on the cover of this Annual Report. (L-R) Geo-scientists acquiring exploratory data from fields in difficult terrains; A typical sub-sea production system installed on deep seabed; ONGC's downstream subsidiary Mangalore Refinery and Petrochemicals Ltd (MRPL); ONGC Videsh operations at Sakhalin, Russia.



# Chairman's Message





**Dinesh K Sarraf**  
Chairman & Managing Director

Dear Shareholder,

If I were to sum up the last one year in the global oil and gas business, 'interesting' will be an understatement despite the largely familiar nature of events and the manner in which they unfolded in the then prevailing scenario over the course of time, changing and redefining, to a large extent, not just some of our firmly-held beliefs on markets but also challenging many established players to vastly alter their strategies for the future. Oil prices tumbled, not without precedent but certainly beyond anticipation, and the market reality we inhabit presently is anything but similar to the one we were in a little more than a year ago.

It is in this context of surrounding volatility, that I, on behalf of the Board of Directors of Oil & Natural Gas Corporation Ltd, the country's most valued Public Sector enterprise, and over 33,000 committed ONGCians, present to you ONGC's Annual Report for the financial year 2014-15; highlighting the Company's performance in operational and financial metrics through the period.

Globally, it has been an uneasy and turbulent year for many in the industry and our performance as the country's flagship energy explorer assumes even more significance in times like these, in view of our enduring commitment to the aspirations of this country and the trust placed in us through the years by our many shareholders. I believe value resides in the ways a company chooses to grow, it is

manifested through the consistency and reliability with which a company delivers on its myriad commitments – financial, social or environmental. In FY'2014-15, we put a check on all of those fronts. Notwithstanding the increasingly challenging business environment, it marked another year of solid performance from ONGC and reaffirmed the Company's proven capabilities in sustainable value creation. Beyond impressive operational and financial numbers, what must hearten ONGC's many shareholders further is that the resilience of our business is also underpinned by a strong focus on Safety and an environmentally-aware approach, making our model not only robust but equally adaptable to the emergent needs in this evolving landscape.

Coming to specifics of our performance, at ONGC, a strong exploratory performance has always featured high among the company's priorities. We remain steadfast in our commitment to organic growth through steady and continuous enhancement of our already substantial reserve position. FY'2014-15 was a strong step in that direction. We made 22 oil and gas discoveries in the last financial year. On 2P basis, we made cumulative reserve accretion of 61.05 Million Metric Tonnes of Oil Equivalent (MMtoe). With a Reserve Replacement Ratio (RRR) for the year at 1.38 we have also ensured a stronger pipeline of future hydrocarbon supplies.

However, the biggest positive, most undoubtedly, from last year comes from the arena of production as we reversed the trend of declining indigenous crude oil output. Our standalone domestic crude output was 22.26 MMT compared to 22.25 in the previous fiscal (FY'14). The increase is marginal, yet it shows the rich possibilities of a focused operational approach and effective deployment of technology in a portfolio that is predominantly mature. The results of our technology-intensive schemes, geared to improve ONGC's recovery rates, are the most outstanding in the prolific Mumbai Offshore fields, the mainstay of ONGC's domestic portfolio, where production shot up by 4.3 percent on a year-on-year basis. In fact, supplies unlocked through these schemes accounted for over 34 percent of our domestic

supplies in FY'14-15. There is potential for more and promising projects like Mumbai High North Phase-III and Mumbai High South Phase-III form part of our plans to realize additional volumes from our legacy assets. However, our gas output for the year dipped as a result of which total standalone domestic supplies of crude oil and gas from ONGC-operated fields declined to 44.28 MMtoe from 45.53 MMtoe a year ago.

Beyond our commitment to maximizing output from the producing assets, we are also actively focused on monetizing fresh reserves through several meaningful development projects which upon execution has the potential to add meaningful material volumes to our current production profile. Six major field development projects worth over ₹ 24,000 Crore were approved by the Board of ONGC during the past one year, of which the development of Daman and Nagyalanka are the more significant ones. Marginal fields otherwise deemed commercially unviable for their pocket-sized reserves and issues with accessibility have been developed through a clustered approach and they combined to contribute a healthy 13.8 percent of the company's standalone domestic crude oil output.

Overall, ONGC remained the largest producer of oil and natural gas within the country, contributing over 69 percent and 70 percent to country's production of oil and gas respectively. The total output of ONGC group (including ONGC Videsh and ONGC's share in PSC-JVs) stood at 58.34 MMtoe (59.2 MMtoe in FY'14).

Financially as well, FY'2014-15 was an encouraging year for ONGC considering the widespread pessimism around the earnings outlook in the sector due to the depressed oil prices. The oil price slump did dent our earnings but we still managed to register annual revenue of ₹ 830,935 million. Our combined group revenue for the fiscal was ₹ 1,660,668 million. Standalone Profit-After-Tax was ₹ 177,330 million (down 19.7 percent) while the Group PAT was ₹ 183,335 million (down 30.8 percent). Staying on the earnings front, we realized a higher value for our produced barrel (\$44.87/bbl) of crude compared to the previous year (\$40.97/bbl) largely on account of our lower

contribution towards sharing of under-recoveries of OMCs which at ₹ 362,996 million was significantly lower than our subsidy burden of FY'14 (₹ 563,842 million). The Government's progressive stance on key policy matters related to the oil and gas sector has played a key part in this regard.

ONGC has consistently been among the top dividend payers in the country and FY'15 was no different. What's more significant is that even in a year where businesses were severely impacted by diminished cashflows ONGC's overall dividend pay-out ratio (with dividend tax) was higher (55 percent) than that in the preceding fiscal (43 percent). Total dividend pay-out to shareholders was ₹ 81,277 million. This amply illustrates the strength and flexibility of ONGC's balance sheet; it also contrasts ONGC's enduring conviction in the strength of its highly valued long-term relationship with its shareholders with the short-term cyclicity of the markets.

Our international E&P operations, too, is on a stronger footing relative to last year. ONGC Videsh, over the last few years, has aggressively expanded the scope and presence of our operations on the global map with a view to creating a more balanced and diversified portfolio, a necessary hedge against the characteristic volatility of our functional environment. We grew our exploration position during the year, having secured blocks in Myanmar, Bangladesh and New Zealand, which crucially marks our first entry into the Asia-Pacific region. Also, our production, in spite of our interrupted supplies in South Sudan and Syria, registered an uptick as we pumped output to 8.87 MMtoe in FY'15 from 8.36 MMtoe in FY'14. This marks the second consecutive year of growth for our overseas business in terms of production performance. Today, ONGC Videsh is present in 17 countries across 36 projects of which 13 are producing properties. Success of our forays in the international arena is central to realizing ONGC's long-term growth plans. Management, accordingly, has invested significant resources towards further expansion of our global business in a manner that new properties not only play to our growing strengths but also bring in desired level of exposure to new plays and technologies. A stronger ONGC Videsh, eventually, will greatly augment the

country's energy security.

All the while, we remain committed to our vision of evolving into an integrated energy major of international repute. In that respect, progress and performance of our domestic value-chain integration ventures have provided us with much-needed assurance regarding our exposure in that business domain. It was a major year for our downstream subsidiary, MRPL. All units under the 15 MMTPA refinery's Phase-II expansion plan have been commissioned. Having achieved its highest ever throughput of 14.65 MMT in FY'15, the management, buoyed by an improved market outlook and a facilitating policy regime, is actively considering the expansion of its retail footprint. ONGC Tripura Power Company Ltd (OTPC), our venture in the Power segment, is a fine example of ONGC's successful diversification into non-E&P business as well as its promotion of energy within the framework of sustainability. The 726.6 MW combined cycle power plant is not only the biggest energy project in the country's North-eastern region in terms of investment, it is also one of largest UNFCCC-registered CDM projects in the world earning an estimated annual CER of 1.6 million.

Our strong endorsement of a sustainable approach to doing business in the energy industry stems from our understanding that businesses exist to create value that is meaningful and relevant across the broad spectrum of its community of stakeholders. Energy is essential to motoring not just the global economic engine but equally important for the improvement of the human condition. Right now, there are countless global citizens and fellow countrymen who are bereft of the bare minimum necessities of life. And every form of energy, be it fossil fuels, renewables or alternative, has its own unique role to play in alleviating this reality. It is not merely about the kind of fuels we use but also so much more about how we find, produce and consume those fuels that is largely going to determine how sustainability influences overall business decisions. At ONGC, we are continuously trying to improve our performance on this parameter by reducing the energy intensity of our operations and by bringing in an element of reusability in our resource consumption patterns. This, along with our Corporate Social Responsibility

(CSR) initiatives, designed to positively integrate our business with communities and the social environment around our operational areas, lend a healthy dimension to the ONGC model.

ONGC's sustained performance and contribution in the energy arena continue to be acknowledged in the industry. We are rated highly among our corporate peers in such respected listings such as Platts 250 Global Energy Rankings, Forbes Global 2000 and Fortune's World's Most Admired Companies.

I firmly believe that strong relationships at every level remain at the core of a company's success in the long run. From that perspective, our relationship with the Government, particularly the Ministry of Petroleum & Natural Gas, our most significant stakeholder, has been marked with great understanding and fulfilment. It is a partnership spurred by the urgency to achieve the common goal of greater energy independence for the country, and the support and consideration extended by it to the organization through all the many eventful years of ONGC's existence has been nothing less than outstanding.

Stability in the energy industry is a chimera, an overused concept that seldom encounters real-world translation. But you are looking at a company that can look ahead to the future with as much confidence as it can look back upon its more than 50 years of rich legacy, and with the potential to deliver even more value for the investment you have committed it through the years. ONGC continues to be a worthy exemplar of consistency in a world where change is the most abiding norm. In the same vein, you have remained steady with your support for this company. We sincerely acknowledge the confidence and trust you have placed in us, right along the journey, equally through periods of growth and turmoil. You, our valued shareholder, are the cornerstone of our motivation for greater success.



**Dinesh Kumar Sarraf**  
**Chairman & Managing Director**



**Leading from the front:** Hon'ble MoS (I/C), Petroleum & Natural Gas Shri Dharmendra Pradhan during his review visit of the Mumbai Offshore operations.



## VISION

To be the global leader in integrated energy business through sustainable growth, knowledge excellence and exemplary governance practices.

## MISSION

### World Class

- Dedicated to excellence by leveraging competitive advantages in R&D and technology with involved people.
- Imbibe high standards of business ethics and organizational values.
- Abiding commitment to safety, health and environment to enrich quality of community life.
- Foster a culture of trust, openness and mutual concern to make working a stimulating and challenging experience for our people.
- Strive for customer delight through quality products and services.

### Integrated In Energy Business

- Focus on domestic and international oil and gas exploration and production business opportunities.
- Provide value linkages in other sectors of energy business.
- Create growth opportunities and maximize shareholder value.

### Dominant Indian Leadership

- Retain dominant position in Indian petroleum sector and enhance India's energy availability.

### Carbon Neutrality

- ONGC will continually strive to reduce CO<sub>2</sub> emissions across its activity chain with the objective of achieving carbon neutrality.

<b>Board of Directors</b>	<b>14</b>
<b>Notice</b>	<b>23</b>
<b>Performance at a Glance</b>	<b>34</b>



<b>Board's Report</b>	<b>48</b>
<b>Annexure to Board's Report</b>	<b>80</b>
<b>Comments of C&amp;AG</b>	<b>113</b>

<b>Management Discussion &amp; Analysis Report</b>	<b>118</b>
<b>Corporate Governance Report</b>	<b>143</b>
<b>Auditors Certificate on Corporate Governance</b>	<b>172</b>



# Contents