Oil and Natural Gas Corporation Limited

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Annual Report 2013-2014

Annual Report 2013-2014

Keeping Energy in
Synergy With Future



Oil and Natural Gas Corporation Limited

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ONGC

is on a mission

To find more energy and to deliver energy for national growth.

The challenges are many.

But we have the Courage, the Knowledge, the Vision and the alchemy to transform uncertainty into value.

It has been a journey marked by uncommon grit, resilience and the power to turn adversity into opportunity. Starting from scratch, we have put India on the world energy map.

With our energy footprint in 16 countries, we are geared to anchor India's energy security.

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ONGC





Chairman's Message

Dear Shareholder,

On behalf of the Board of Directors of Oil and Natural Gas Corporation Ltd., the Most Valuable Indian Public Enterprise with a ₹ 4 trillion market capitalization, it is my proud privilege to present an account of your Company's operating and financial results for the financial year 2013-14. A team of around 34,000 engineers, scientists and managers of the India's National Oil Company, working 24x7 in challenging E&P coordinates in India and 16 countries to deliver energy that is crucial for economic development of India, home to over 17 per cent of the world population, join me in greeting you.

ONGC – currently the world's number 3 Exploration & Production Company (Platts 2013) - has posted consistently impressive corporate results, notwithstanding enduring challenges in the global economic framework. Apart from reinforcing our position as India's Most Admired Energy Company (Fortune's listing) again, ONGC has achieved an optimised mix of consistent upstream growth and expansion in sustainable development footprints. Such structural strength has enabled us to build long-term wealth formation capabilities and deliver outstanding value to our shareholders. The holistic value creation touches all our stakeholders; many of our stakeholders do not have ONGC shares, but are nevertheless heavily invested in the progress of ONGC.

Your Company strengthened its focus on operational performance, juxtaposing safety and environmental management. ONGC notched up significant scores on key performance indices during FY-14. During the year, your Company made 14 oil and gas discoveries. These efforts added 84.99 Million Tonnes of Oil Equivalent (MTOE) of Ultimate Reserves (89.76 MTOE including our share in joint ventures), the highest in last 23 years. Our Reserve Replacement Ratio of 1.87 marks the 9th consecutive fiscal it has exceeded 100%.

ONGC remained the largest producer of crude oil and natural gas in India. Notwithstanding a 7 per cent natural decline in matured Basins across the globe, your Company maintained its production levels from ONGC-operated domestic fields at 45.53 MTOE. The total Oil plus Oil Equivalent Gas (O+OEG) production ONGC Group in FY-14(including ONGC Videsh and ONGC's share in Production Sharing Contracts-Joint Ventures) has been 59.2 MTOE. Calibrated capital and technology infusion for best-in-class reservoir management maintained production in 15 major fields, contributing 70 per cent of ONGC's crude production. This positions ONGC in the league of the world's best brownfield managers.

Over 70 per cent of the major producing Indian fields of ONGC, like their global counterparts, are into their natural decline phase. ONGC has arrested the decline in these fields through significant success in technology-enabled Improved Oil Recovery (IOR) and Enhanced Oil Recovery (EOR) projects. The current recovery factors in ONGC's matured fields are in the range 25-33 per cent. ONGC is increasingly pursuing the agenda to improve recovery factor through capital-intensive technology interventions, and aims to increase the average recovery factor to 40 per cent by 2020.

On the Earnings front, there are generous upsides from current levels. The average gross price for ONGC's crude during FY-14 was US$106.72/barrel (3.6 per cent lower than US$110.74/barrel in FY-12). The net realized price in FY-14, however, was US$40.97/barrel, 14.4 per cent lower than US$47.85/barrel in FY-13. This was due to discount of US$ 65.75/barrel on crude sold to Oil Marketing Companies (US$ 62.89/barrel in FY-13), as per government instructions. With the buoyancy in international crude prices and greenback strength (our revenue is US Dollar-denominated) expected to continue, there are substantive growth potential in your Company's Earnings in the near-term. With more remunerative pricing of our natural gas and with subsidy rationalization, significant value remains to be unlocked for your trusted shareholdings.

Despite weak global economic fundamentals, your Company registered the highest-ever Revenue at ₹ 842.01 billion, a growth of 1.1 per cent from ₹ 832.90 billion in FY-13. The ONGC Group Revenue of ₹ 1,658.49 billion was also the highest-ever. We posted a higher Profit-After-Tax (Earnings) of ₹ 220.95 billion (up 5.6 per cent from FY-13), after sharing the highest-ever under-recovery of ₹ 563.84 billion (an increase of ₹ 69.63 billion i.e. 14.1 per cent over FY-13). We are recommending an investor-cheering dividend (190 per cent) payout ratio of 43.04 per cent (including dividend tax). It gives me immense pleasure to inform you that the Company, for many years running, has been the highest dividend payer in India. Over the past 6 fiscals, we distributed over ₹ 473.67 billion in dividends to shareholders, excluding dividend tax.

Our strong cash flow generation model provides capacity for this robust shareholder distribution, along with a fiscal comfort to pursue attractive business opportunities. An aggressive investment profile, with a 5-year Capex CAGR of over 8 per cent, positions your business for enduring earnings growth. Over the past decade, we had de-leveraged the balance sheet and we are almost a zero-debt

India's energy anchor

company. This has been achieved by strong cash generation, though, of late, the subsidy burdens have consumed some of the cash reserves painstakingly built up in the past decade.

With domestic hydrocarbon prospectivity limited by geological endowments, ONGC's wholly-owned subsidiary ONGC Videsh Limited (ONGC Videsh) is on full-throttle to secure overseas oil and gas equity. In the last 10 years, ONGC Videsh has strengthened its E&P foothold in diverse geologies. In this completed fiscal, ONGC acquired blocks in Mozambique, Brazil, Bangladesh and Myanmar. ONGC Videsh now has a balanced portfolio of 33 hydrocarbon properties worth over USD 15 billion across the globe in 16 countries in 4 continents. Thirteen of these are producing assets, spread across 10 countries. We are thankful to the diplomatic support from the Indian government for catalysing this expansion, establishing OVL as India's biggest E&P multinational.

Despite punctuated production from Syrian and South Sudan assets, ONGC Videsh achieved a production of 8.36 million tonnes, up 15 per cent from FY=13, along with the highest-ever Profit-after-Tax of ₹ 44.45 billion, up 13 per cent over ₹ 39.29 billion in FY-13.

ONGC has built up a robust presence in most of the emerging low-carbon growth corridors like renewables and unconventional gas. Already into Coal Bed Methane (CBM) and Underground Coal Gasification (UCG) prospecting in a big way, your Company was the first to establish Shale gas presence in India. Environmental impacts of fracking are the issues being dealt by us with technology-enabled mitigation techniques with global partners experienced in shale play. Keeping in view India's increasing trend in gas imports, ONGC has taken up positions in LNG regasification terminals at one of the most strategic locations - Mangalore. Under our long-term plan, we want to emerge as a key LNG player in India by building a LNG capacity of 9 MMTpa by 2030.

We are positioning Sustainable Development with a key focus on Environment Management in our long-term Perspective Plan 2030. This sustainable value creation spreads beyond our financial balance sheet to our community and environment balance sheets. The fifth 'Corporate Sustainability Report' of ONGC has been released. A number of well-designed initiatives like Water Foot-printing, Global Methane Initiative, Carbon Foot-printing and UN-registered Clean Development Mechanism (CDM) projects are being administered. Our ONGC Tripura Power Company (OTPC) 726.6 MW gas-based power project, the first unit of which has started commercial production, will mitigate over 1.6 million tons of Carbon-dioxide emissions per year for the next 10 years. The project has been registered with United Nations Climate body as one of the biggest Clean Development Mechanism (CDM) projects in the world. ONGC has improved its Newsweek Green Ranking to 217 from 386 (in 2012), becoming the 3rd among Indian companies in environmental performance.

We have made significant strides in engaging our operational communities through our structured Corporate Social Responsibility (CSR) programmes. We are graduating to deliver high-impact technology-enabled outreach projects to enhance connectivity with communities around our operational pockets.

Your Company continues to feature among the top-ranked performers among global peers. We advanced to 21st in Forbes Global 2000 list 2012 of world's biggest Oil and Gas companies, up 2 notches from last year. We were again featured in Fortune's 'Most Admired Indian Companies' list of 2014, the only Indian energy company in the 'Mining, Crude Oil Production' category. Economic Times-Brand Equitylisted ONGC as 14th most valued brand, placing ONGC as the most valued brand among non-banking public enterprises.

To sustain growth in the emerging business paradigm, your Company has chalked out an ambitious **'Perspective Plan 2030'**, mapping the long-term growth model of ONGC as an integrated energy major. Under this Plan, we target to double production to over 130 MTOE by 2030, with 50 per cent overseas contribution. ONGC intends to invest Rs. 11 trillion over 2013-2030 against ₹ 2.65 trillion under the 12th 5-year Plan (FY13-17). We are eyeing a six-fold increase in production of our overseas subsidiary ONGC Videsh Limited by 2030, to 60 MTOE. We would also strengthen our downstream linkages in alternate energy, LNG and petrochemicals, targeting 30 per cent of group revenue from non-E&P verticals. For reaching these 2030 goal posts, we need to grow at 4 per cent against our historic figure of 2 per cent. We are building systems to ensure that we remain on track to reach the targets.

In ONGC, one of our key business objectives is to engage our stakeholders with best-in-class Corporate governance practices. This is amply reflected through the efforts illustrated in the Corporate Governance Report which forms part of the Annual Report. Your continued confidence in your Company is one of our greatest strengths. Our steadfast commitment to deliver enduring value is one of the potent opportunities to enrich our shareholders.

I thank and the Ministry of Petroleum & Natural Gas all shareholders for understanding various compulsions of the energy major and yet reposing sustained confidence and trust in its management. In the last five fiscals, our stock has returned much more than benchmark indices. With its structural spread of high-end E&P capabilities, progressive count of quality hydrocarbon properties, a collaborative business ecosystem and consequent generous upsides in revenue vectors, there is far superior sustainable wealth to be mined from a whole-hearted investment in your Company.

Dinesh K Sarraf
Chairman & Managing Director

India's energy anchor

ओएनजीसी ONGC

Vision

To be the global leader integrated energy business through sustainable growth. knowldege 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 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 sector 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.

India's energy anchor

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ONGC's first oil well (Lunej-1) in Cambay Basin, Gujarat



India's energy anchor

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ENERGY OF INDIA



Board of Directors

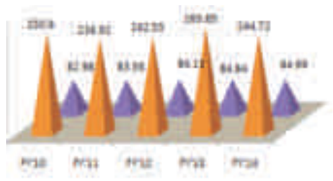
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Performance at a Glance

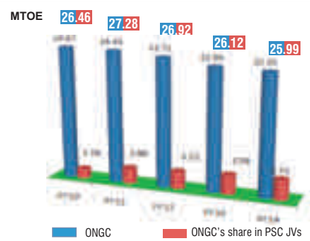
Operational Highlights FY'14

Reserve Accretion (Mtoe)

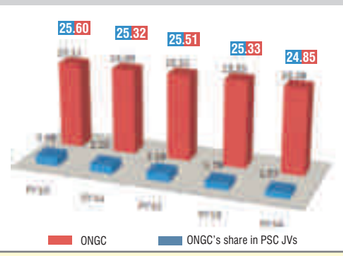
Highest Ultimate Reserve Accretion in last 23 years



Oil Production (MMT)



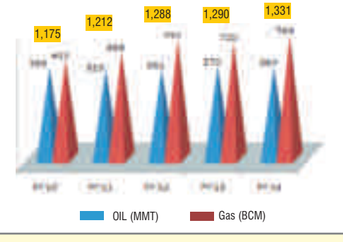
Gas Production (BCM)



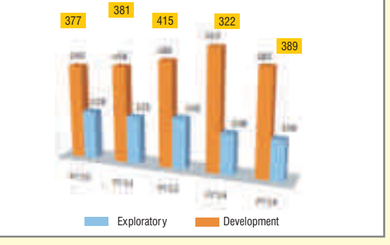
VAP Production (KT)



Oil & Gas Reserves (3P)

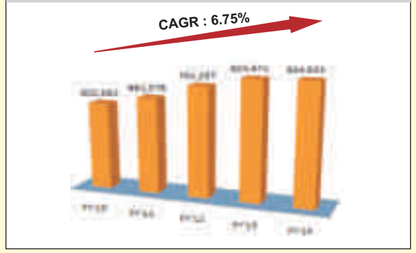


Wells Drilled (Nos.)

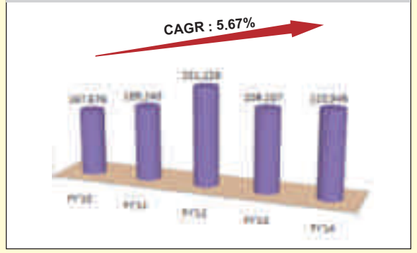


Financial Highlights FY'14

Sales Income (₹ Million)



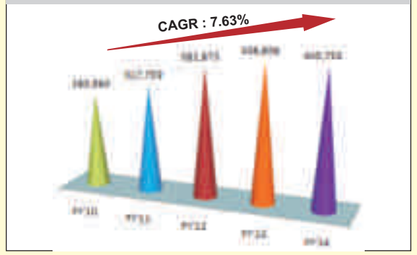
Net Profit (₹ Million)



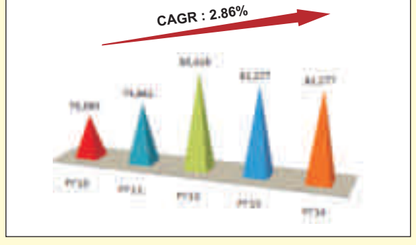
Net Worth (₹ Million)



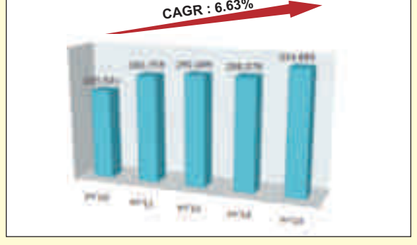
Contribution of exchequer (₹ Million)



Dividend (₹ Million)



Capex (₹ Million)



Board of Directors

As on 15th August, 2014



R K Singh P Uma Shankar O P Bhatt S K Barua S P Garg Ashok Varma T K Sengupta A K Banerjee



D K Sarraf Shashi Shanker N K Verma D D Misra S C Khuntia A Giridhar K N Murthy S Ravi

Brief Profiles of the Board of Directors as on 15th August, 2014

Chairman and Managing Director



Mr. D K Sarraf, 56, is the Chairman & Managing Director of Oil and Natural Gas Corporation Ltd (ONGC), India's most valuable Maharatna public sector enterprise and one of the most premier E&P companies in the world. ONGC is the highest Profit making and one of the most valuable company of India as well as one of the Fortune's Most Admired Companies in the world.

He is also the Chairman of ONGC Videsh Limited (ONGC Videsh) which is operating across 16 countries. He is also Chairman of Mangalore Refinery and Petrochemicals Ltd (MRPL) and five other ONGC Group companies (OPaL- ONGC Petro-additions Ltd, OMPL - ONGC Mangalore Petrochemicals Ltd, MSEZ- Mangalore SEZ Ltd, OTPC- ONGC Tripura Power Company Ltd and OMEL- ONGC Mittal Energy Ltd).

Mr. Sarraf graduated in Commerce from the prestigious Shri Ram College of Commerce, Delhi University and holds a post graduate degree in Commerce from the same University. He is an associate member of the Institute of Cost and Works Accountants of India and the Institute of Company Secretaries of India.

He has experience of over three decades in the oil and gas industry, having started his oil and gas career in India's second largest upstream oil company - Oil India Limited and worked there till 1991 where he inculcated the experience in various facets of E&P at oil field level. He joined ONGC in 1991 and handled various key assignments at corporate offices.He was elevated to the post of Director (Finance) in ONGC Videsh in February 2005 where he served till December 2007. During this period, ONGC Videsh made significant acquisitions in Syria, Brazil, Colombia, Venezuela, Cuba, Egypt and Myanmar. In December 2007, he joined back ONGC as Director (Finance). In September 2011 once again Mr. Sarraf went back to ONGC Videsh assuming the charge of its Managing Director. In March, 2014, he joined back ONGC once again and took over as its Chairman & Managing Director

In recognition of his excellence in financial management and contributions, he has been conferred with several accolades including the Best CFO Award in Oil & Gas sector in India by CNBC in 2009 and 2011.

Functional Directors

Shri Aloke Kumar Banerjee is the Director (Finance) of your Company. He holds a Master's degree in Commerce from University of Calcutta. He is a Fellow Member of the Institute of Chartered Accountants of India, Associate Member of the Institute of Company Secretaries of India and Associate Member of Institute of Cost & Works Accountant of India. He has 32 years of diversified experience to his credit and rich knowledge in Financial Management and Strategic Planning in upstream Oil & Gas Industry with specialization in Corporate Accounts, Corporate Budget, Cost Management, Risk Analysis & Financial Planning, Procurement & Contracts, Performance Benchmarking & Evaluation, Audit, Corporate Governance, Insurance, etc. He had introduced & implemented Financial Benchmarking Concept and Zero-base Budgeting in ONGC.





Shri Shashi Shanker is Director (T&FS) of your Company. He has more than 31 years of experience in Oil Industry. He holds a B.Tech degree in Petroleum Engineering from Indian School of Mines, Dhanbad and MBA with specialization in Financial Management from IGNOU. He undertook General Management Training from IIM, Lucknow and Leadership Development Programme at ISB, Hyderabad under "Shangsaptak" programme.

Shri Narendra Kumar Verma is Director (Exploration) of your Company. He has more than 31 years of experience. He holds a Masters Degree in Applied Geology, an M. Tech degree in Petroleum Exploration and MBA in Finance. He has also completed One Year Global Manager's Program at IIM, Kolkata.

Recipient of many national awards and international commendations, the crowning moment of his technical career came with the prestigious 'National Mineral Award', the highest recognition by the Government of India in the field of geosciences, mining and allied areas, that was conferred upon him for his outstanding contribution to Petroleum Exploration in Mumbai Offshore.

Shri N K Verma has demonstrated remarkable competence in challenging roles in the domain of 'Exploration' and technological research, ranging from management of overseas exploration and Business Development as Director(Exploration), ONGC Videsh Limited; Management of exploration activities in Frontier Basin, Mumbai Offshore and Assam-Arakan Basin; and Head of Interpretation Group at the prestigious Geodata Processing and Interpretation Centre (GEOPIC) of ONGC.





Tapas Kumar Sengupta is Director (Offshore) of your Company and joined the Board of the Company on 1st February, 2014. He holds a first-class B.Tech degree in Chemical engineering from Jadavpur University, Calcutta, and also commands a Diploma in Management from Indira Gandhi National Open University. Prior to becoming Director(Offshore), he was Chief of Well Services looking after operations, technological needs apart from manpower and material support for all Onshore and Offshore assets in respect of Well Services and Deepwater projects of Eastern Coast of India.

Tapas Kumar Sengupta is one of the select club of production engineers who has a balanced exposure to both onshore and offshore oilfields operation. His onshore experience portfolio comprises of Well Services in Gujarat and Assam for 11 long years and 4 years in Sudan as part of ONGC Videsh. His 4 years overseas tenure at Sudan as a General Manager in Greater Nile Petroleum Operating Company, saw an increase of the oil production through innovative engineering interventions.

Of his 18 years in Offshore fields off Mumbai, he served for 12 years in Mumbai High in Well Services, successfully handling a number of production-enhancement assignments. He was the Project Coordinator for New Technology jobs like Water Shut-Off & Gas Shut-Off in difficult wells of Mumbai high in 1992-94. Sengupta was also instrumental in improving performances of ONGC's offshore sick well inventory. He was the recipient of the CMD award for Best Production Engineer in 1996 & Best Professional Engineer in 2001 for the same.

Shri T. K. Sengupta has been a silent catalyst in many of ONGC's organizational turning points. He was associated with Organisational Transformation Project (OTP – precursor of CRC) launched in 1997 as a part of first Multi-Disciplinary Team member in the Neelam Pilot on Arabian Sea.

Mr Ashok Varma is the Director (Onshore) of your Company and joined the Board of the Company on 19th June, 2014.

A graduate in Petroleum Engineering from Indian School of Mines, Dhanbad. Prior to his joining as Director (Onshore), he was heading the Eastern Offshore Asset at Kakinanda, where he was instrumental in putting the Eastern Offshore Asset on production. Mr Varma joined ONGC in 1978 as Assistant Engineer at Assam. During his early years at ONGC, he was actively engaged in design and engineering of offshore platforms in western offshore. Subsequently, he served in Western Onshore at Ankleshwar where he extensively worked on water injections leading to initiation of pressure maintenance in Gandhar field. Mr. Varma steered the Imperial Energy in Russia, a subsidiary of the ONGC Videsh Limited, as the Chief Executive Officer. Mr. Varma pursued the hydrocarbon opportunities abroad as a part of senior management of ONGC Videsh Ltd between 1996 and 2006. He was instrumental in acquiring 20% participating interest in Sakhalin-1 project in Russia by ONGC Videsh in 2001. He also headed ONGC's Assam operations as Asset Manager from 2008 to 2009.

