OIL AND NATURAL GAS CORPORATION LTD.

DIVIDEND DISTRIBUTION POLICY

1.0 Introduction:

Pursuant to Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2016 (the “Listing Regulations”) dated 8th July, 2016, the Board of Directors (Board) of Oil and Natural Gas Corporation Ltd (ONGC) has adopted the Dividend Distribution Policy.

2.0 This policy shall be known as ONGC Dividend Distribution Policy (the “Policy”).

3.0 Effective Date

The Policy shall become effective from the date of its adoption by the Board i.e. 7th September, 2016.

4.0 Objective and Scope of the Policy

The Securities and Exchange Board of India (“SEBI”) vide its Notification dated July 08, 2016 has amended the Listing Regulations by inserting Regulation 43A in order to make it mandatory to have a Dividend Distribution Policy in place by the top five hundred listed companies based on their market capitalization calculated as on the 31st day of March of every year.

Considering the provisions of the aforesaid Regulation 43A, the “Board” of ONGC recognizes the need to lay down a broad framework with regard to decision for distribution of dividend to its shareholders and/ or retaining or ploughing back of profits. The Policy also sets out the at the time of taking such decision of distribution or of retention of profits, in the interest of providing transparency to the shareholders.

The Policy is not an alternative to the decision of the Board for recommending dividend, which is made every year after taking into consideration all the relevant circumstances enumerated hereunder or other factors as may be decided as relevant by the Board. However, declaration of dividend on the basis of parameters in addition to the elements of this Policy or resulting in amendment of any element of the Policy, in the interest of the Company, will be disclosed in the Annual Report as well as on the website of the Company.

The Policy reflects the intent of the Company to reward its shareholders by sharing a portion of its profits after retaining sufficient funds for growth of the Company. The Company shall pursue this Policy, to pay, subject to the circumstances and factors enlisted hereon, progressive dividend, which shall be consistent with the performance of the Company over the years.

5.0 The Policy shall not apply to:

- Determination and declaring dividend on preference shares, if any to be issued by ONGC at a later date, as the same will be as per the terms of issue approved by the shareholders;
- Distribution of dividend in kind, i.e. by issue of fully or partly paid bonus shares or other securities, subject to applicable law;
- Distribution of cash as an alternative to payment of dividend by way of buyback of equity shares.

6.0 Statutory Requirements

The Board shall comply with the following statutory requirements while taking decision of a dividend payout during a particular year:

(a) Companies Act 2013 and rules applicable thereon including those with respect to mandatory transfer of a certain portion of profits to any specific reserve which may be applicable to the Company at the time of taking decision with regard to dividend declaration or retention of profit.

(b) Guidelines or directives issued by the Government of India

(c) Any other laws

7.0 Prudential requirements

The Board of Company shall take a decision to declare dividend after taking into account the following

(a) Profits of ONGC -

(i) In case of Final Dividend, the profits (after providing depreciation as per Companies Act, 2013) as per audited financial statements for the year for which the Final Dividend is proposed to be declared and after transferring to the reserves such amount as the Board of ONGC may consider appropriate.

(ii) In case of Interim Dividend, the profits as per the unaudited results for/upto the last quarter (after providing depreciation as per Companies Act, 2013) which have been approved by the Board and for which limited review as per "Listing Regulations" has been carried out

(b) Specifically for interim dividends, the perception of the management with regard to

(i) likely profits in the remaining part of the financial year

(ii) the prevailing and forward product prices in the international market

(iii) Foreign currency exchange rate.

(c) Future Capital Expenditure plans of ONGC

(d) Likely maturity of Short-term investments to ensure maximum returns.

(e) Likely fund requirements of ONGC Videsh Ltd and other Subsidiaries and Joint Venture companies.

(f) Expectation of shareholders /stakeholders

8.0 Other important internal and external factors to be considered by the Board

In addition to the aforesaid parameters such as realized profits and proposed major capital expenditures, the decision of dividend payout or retention of profits shall also be based on the following factors/ parameters:

(a) **Cash flow –** If the Company cannot generate adequate operating cash flow, it may need to rely on outside funding to meet its financial obligations and sometimes to run the day-to-day operations. The Board will consider the same before its decision whether to declare dividend or retain its profits.

(b) **Obligations as an NOC –** Considering the fact that ONGC is a National Oil Company (NOC) of the country, it has to fulfill certain obligations with regard to exploration activities, Minimum Work Programme and comply with the directions that may be issued by the Government of India. The likely financial effect of the same may also be factored into the cash flow before arriving at a decision on the quantum of dividend.

(c) **Obligations to creditors** – ONGC should be able to repay its debt obligations without much difficulty over a reasonable period of time. Decision of dividend declaration shall be taken after considering the volume of such obligations and time period of repayment.

(d) **Cost of borrowings –** The Board will analyze the requirement of necessary funds considering the long term or short term projects proposed to be undertaken by the Company and the viability of the options in terms of cost of raising necessary funds from external sources such as bankers, lending institutions or by issuance of debt securities or plough back its own funds.

(e) **Taxation and other regulatory concern** - Dividend distribution tax or any tax deduction at source as required by tax regulations in India, as may be applicable at the time of declaration of dividend and its impact on the finances of ONGC.

(f) **Macroeconomic conditions** - Considering the state of economy in the Country, the policy decisions that may be formulated by the Government and other similar conditions prevailing in the international market which may have a bearing on or affect the business of the Company, the management may consider retaining a larger part of the profits to have sufficient reserves to absorb unforeseen circumstances.

(g) **Past performance/ Dividend history and reputation of the Company** - The standing of ONGC in the business space, its dividend payment history and the impact of the decision on overall reputation of the Company.

(h) Any restrictions on payment of dividends by virtue of any regulation as may be applicable to the Company at the time of declaration of dividend.

9.0 Dividend pay-out ratio

Dividend for every financial year shall be decided by Board considering various statutory requirements, financial performance of the company and other internal and external factors enumerated earlier in the policy. **However, efforts will be made to maintain a dividend pay-out ratio (including Dividend Distribution tax) in the range of 40%-55% of net profit (PAT).**

10.0 Circumstances under which the shareholders of the Company may or may not expect dividend

The decision regarding dividend payout is a crucial decision as it determines the amount of profit to be distributed among shareholders of the Company and the amount of profit to be retained in business. The decision seeks to balance the dual objectives of appropriately rewarding shareholders through dividends and retaining profits in order to fund the growth plans of business.The Company has been consistently paying out dividends to its shareholders and can be reasonably expected to continue declaring in future as well unless the Company is restrained to declare dividends under following circumstances:

(a) **Inadequacy of profits –** If during any financial year, the Board determines that the profits of the Company are inadequate, the Board may decide not to declare dividends for that financial year.

(b) **Dividend not to be declared out of reserves –** As a rule, the Board shall not declare any dividends out of its reserves, except for reasons to be expressly laid down. Any decision in this regard shall be reflected in the Annual Report and website of the company while declaring/ recommending dividend.

11.0 Manner and timelines for Dividend Payout

The following procedure and timelines shall be followed in the declaration and payment of dividends, and is subject to applicable regulations:

9.0 Dividend pay-out ratio

"Dividend for every financial year shall be decided by Board considering various statutory requirements, financial performance of the company and other internal and external factors enumerated earlier in the policy. However, efforts will be made to maintain a dividend pay-out ratio (including Dividend Distribution tax) in the range of 40%-55% of net profit (PAT)".

11.0 Manner and timelines for Dividend Payout

"**(a) Interim dividend(s)**

1. Interim dividend(s), if any, shall be declared by the Board. First interim dividend shall generally be declared in the Board Meeting convened for approval of 2nd quarter accounts. Second interim dividend, if any, shall generally be declared in the Board Meeting convened for approval of 3rd quarter accounts.

2. The payment of dividends shall be made within 30 days from the date of declaration to the shareholders entitled to receive the dividend on the record date as per the applicable laws.
3. In case no final dividend is declared, interim dividend paid during the year, if any, will be regarded as final dividend in the annual general meeting.”

(b) Final dividend

1. Recommendation, if any, shall be done by the Board, usually in the Board meeting that considers and approves the annual financial statements, subject to approval of the shareholders of the Company.

2. The dividend as recommended by the Board shall be approved/declared at the annual general meeting of the Company.

3. The payment of dividends shall be made within 30 days from the date of declaration to the shareholders entitled to receive the dividend on the record date/book closure period as per the applicable law.

12. Manner of Utilisation of Retained Earnings

The Board may retain its earnings in order to make better use of the available funds and increase the value of the stakeholders in the long run. The decision of utilization of the retained earnings of the Company shall be based on the following factors:

- Strategic and long term plans of ONGC;
- Future Equity Oil acquisitions by ONGC Videsh and the need to ensure a strong net-worth position
- Diversification opportunities.
- Non-fund based needs of ONGC, its subsidiaries and Joint Ventures which may require ONGC to have a healthy consolidated balance sheet
- Government guidelines with regard to issue of bonus, buy-back etc
- Any other criteria which the Board of ONGC may consider appropriate

13. Parameters to be adopted with regard to various classes of shares

ONGC has presently only one class of shares i.e. equity shares. As and when it proposes to issue any other class of shares, the policy shall be modified accordingly.

14. Amendment

The Board of Directors of ONGC shall have the right to carry out any changes in the Policy, as it may deem appropriate.